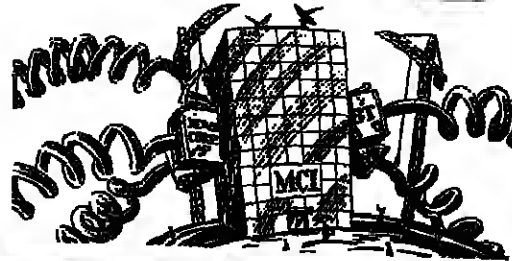


مكتبة الأمل

# FINANCIAL TIMES



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**World economy**  
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World Business Newspaper

THURSDAY NOVEMBER 2 1995

D8523A

## Renault secures big Swedish order for electric cars

French car maker Renault has won what it says is the world's biggest single contract for electric cars by selling 150 vehicles to Nutek, a Swedish public sector organisation promoting energy conservation and technology. An electric version of the Clio hatchback will be tested by a 25-strong group of local authorities and public and private sector companies. Nutek said the final order could reach 1,000 vehicles if more buyers came forward, boosting the gradually expanding electric car market. Page 4

### London Stock Exchange under attack

The London Stock Exchange has missed the opportunity to turn itself into Europe's central share dealing system, according to leading City figure Rudolf Mueller (left). The chairman of UBS UK said he had resigned from the board of the stock exchange last summer out of disappointment at its failure to transform itself into a European exchange. Page 16; Several bankers share Mueller's criticisms, Page 9; UBS figures, Page 17

**US warning as Bosnia peace talks start:** Chief US negotiator Richard Holbrooke predicted a tough slog in the Bosnian peace talks which opened at a military base near Dayton, Ohio. Page 3; Editorial Comment, Page 15

**Commonwealth warns military regimes:** Commonwealth military governments were told their membership of the association could be at risk. The Commonwealth warned of the danger of "real internal conflicts" in Nigeria, Sierra Leone and Cambodia if their military regimes did not rapidly give way to democratic governments. Page 8

**New doubts on strength of US economy:** On Wall Street bond prices rose sharply in early trading as new figures raised fresh doubts about the strength of US economic expansion. The weak figures were seen as increasing the likelihood that the Fed will cut interest rates later this year. Page 6; World stocks, Page 34

**Rise in US frequent flyer fraud:** Frequent flyer fraud is on the increase in the US, as are acrimonious divorce disputes in which spouses squabble over the ownership of air miles, says Randy Petersen, a leading expert on airline loyalty programmes. Page 16

**Yeltsin signs minimum wage law:** Russian president Boris Yeltsin signed laws increasing the minimum wage and minimum pension by 15 per cent. He also met a top aide - a sign that he may be regaining his health after last Thursday's mild heart attack. Page 2

**Disappointing profits for Sainsbury:** Britain's biggest food retailing group, J Sainsbury, announced disappointing interim profits and a fall in underlying sales volumes in its UK supermarket chain. Page 17; Lex, Page 16

### Playboy considers return to casinos

Christie Hefner (left), chairman and chief executive of Playboy Enterprises and daughter of its founder, said the company was thinking of making a return to the world of casinos. This could mean a comeback for one of the most potent sexist symbols of the 1960s and '70s - the Playboy Bunny - in the politically correct 1990s. Page 16

**BHF-Bank, German merchant bank, is on target for a rise in operating profits of at least 10 per cent this year after a 6 per cent increase to DM242m (\$171.83m) in the first nine months.** Page 18

**Two killed in Hizbollah revenge attacks:** Moslem Hizbollah guerrillas killed two Israeli-backed militiamen and wounded five Israeli soldiers in attacks in south Lebanon which the attackers said were to avenge slain Islamic Jihad leader Fathi Shqeqi.

**Baltic envoy recalled in oil row:** Lithuania is recalling its ambassador from neighbouring Latvia in protest at the planned development of a disputed oilfield off the Baltic coast. Page 2

**Former Irish deputy PM dies:** Former deputy Irish prime minister Brian Lemmon died in a Dublin hospital, aged 64.

STOCK MARKET INDICES			GOLD		
New York Composite	4,746.45	(-0.03)	New York Gold	383.3	(84.3)
Dow Jones Ind	1,035.49	(-0.57)	London Gold	382.25	(32.7)
FTSE 100	1,814.01	(-18.67)			
Nikkei	12,532.22	(-4.53)			
DAX	2,151.7	(-10.4)			
FTSE 100	17,474.49	(-181.15)			
US LUNCHTIME RATES			DOLLAR		
Federal Funds	5 1/4%		New York Gold	1,280.05	
3-month Treas Bill	5.45%		FR	1,415.3	
Long Bond	10 1/4%		SP	1,129	
Yield	6.25%		Y	103.065	
OTHER RATES			STERLING		
US 3-mo interest	5.5%	(82%)	London	1,578.5	(1,577)
UK 10 yr Govt	10.4%	(103%)	DM	1,416.4	(1,403)
France 10 yr Govt	10.4%	(103%)	FF	4,914.5	(4,823)
Germany 10 yr Govt	10.4%	(103%)	SP	1,129	(1,135)
Japan 10 yr Govt	10.4%	(103%)	Y	103.065	(102.24)
NORTH SEA OIL (Argus)					
Brent 15-day (Dec)	\$16.26	(16.35)	DM	2,238	(2,221)
			Tokyo close	Y 182.3	
Australia	10.00		London	1,578.5	(1,577)
Brazil	10.00		DM	1,416.4	(1,403)
Canada	10.00		FF	4,914.5	(4,823)
Denmark	10.00		SP	1,129	(1,135)
France	10.00		Y	103.065	(102.24)
Germany	10.00				
Greece	10.00				
India	10.00				
Indonesia	10.00				
Italy	10.00				
Japan	10.00				
South Korea	10.00				
Spain	10.00				
Sweden	10.00				
Switzerland	10.00				
Taiwan	10.00				
Thailand	10.00				
UK	10.00				
USA	10.00				
Yugoslavia	10.00				

## Çiller warns EU against customs union delay

By John Barham in Ankara

Mrs Tansu Çiller, Turkey's prime minister, warned yesterday that rejection, or even delay, by the European parliament of a customs union with the European Union planned for 1996 would unleash the forces of Islamic fundamentalism in Turkey and the surrounding region.

In an interview, Mrs Çiller warned that rejection will give the upper hand to the fundamentalists here and in the region because the Moslem world looks up to Turkey as a model. For

## Turkish PM says rejection would unleash fundamentalism

that reason, she said, "Turkey needs Europe, but Europe needs Turkey even more" as a beacon of stability in the region. The European parliament is to vote next month on ratifying a customs union, which would harmonise tariff rates between Turkey and the EU. Although EU governments are urging approval because it would bind Turkey closer to the west, Strasbourg has made its consent conditional on

human rights and political reforms in Turkey. Turks would see delay as rejection, Mrs Çiller warned. "It will come to be seen that Europe has rejected Turkey again. These are proud people." She denied comments by some Euro-MPs that constitutional changes liberalising electoral laws, the release of political prisoners and amendment of Turkey's anti-terrorism law were

"cosmetic" changes. She said "freedom of speech is an ongoing process and will be continued". She added that pushing these changes through parliament required great effort. Furthermore, she said, from Turkey's viewpoint, these are substantial reforms. This was "the first time in 100 years" that parliament had amended the constitution. General elections are to be held on December 24, after the col-

lapse in September of her 28-month government, and Mrs Çiller promised to return with a majority government. "I am determined to raise the standards of democratisation. We will have the same standards of democracy that other countries do." She pledged that if re-elected she would abolish emergency legislation that curbs constitutional rights in the south-east where security forces are fighting an 11-

year Kurdish insurgency. However, she said the reform process would be reversed if the Islamic fundamentalists of the Refah party came to power. Refah has emerged as one of Turkey's most popular parties in response to deepening economic crises and widespread disaffection with traditional politicians. Referring to Refah, she said that "people who come in the name of democracy (would) come to power to end democracy. They seek to end freedom of choice."

Continued on Page 16

## German union offers pay limit to create jobs

By Judy Dempsey in Berlin

IG Metall, Germany's powerful engineering union, yesterday made a significant shift in policy by promising to keep wage demands in line with inflation in negotiations for 1997 in order to create jobs.

In return, Mr Klaus Zwickel, the union's head, wants employers to maintain employment, create 300,000 jobs over three years and return 30,000 long-term unemployed to the workplace.

In a speech to the union's annual congress in Berlin, he also urged the government to increase numbers on training schemes by 5 per cent a year.

His initiative came as German steelmakers such as Thyssen have reduced working hours for some employees because of falling orders. Thyssen said new orders had fallen 10 per cent in the third quarter this year compared with a year earlier.

Mr Zwickel's speech was immediately welcomed by Gesamtmetall, the engineering employers' association. Mr Roland Fischer, a member of its board, called the proposals "courageous" and a step in the right direction. But Mr Klaus Murrmann, president of the German employers' association BDA, rejected the proposals, saying in an interview in the Cologne daily Express published today that such actions "are superfluous".

Mr Murrmann called on IG Metall to demonstrate more flexibility over working hours and to support reductions in employers' social security contributions.

Mr Hermann Remsperger, chief

economist at bank BHF, also struck a more cautious note, saying that the level of economic growth would determine whether companies could create that number of jobs. However, he thought the proposals represented the first sign of the union accepting a link between wages and jobs.

The measures contained in the union's "Alliance for Work" are seen as an attempt by IG Metall to take the offensive at a time when the government is planning to cut unemployment benefits and job creation schemes.

The union has come under increasing pressure to show more

flexibility as the unemployment rate, currently at 9.4 per cent, is forecast to decline only slightly next year to 9.2 per cent, or 100,000 people. Unemployment has also eroded the union's membership. It has lost an average 10,000 members a month since 1992 to stand now at 2.8m.

Although IG Metall has repeatedly struck wage deals considerably above the inflation rate, Mr Zwickel has sought to introduce some flexibility since becoming leader two years ago. Recently he has voiced support for schemes to reward overtime with shorter working hours at times of low demand rather than with extra pay. Opel, the German subsidiary of General Motors, has implemented such a scheme.

Continued on Page 16

## Perry visits Japan



US defence secretary William Perry is welcomed on board the Japanese destroyer Yūgin for a courtesy call yesterday during a tour of the US naval base at Yokosuka, where the US and Japan share some facilities. Mr Perry's visit is aimed at defusing the crisis over the two countries' security alliance. While on board the Yūgin he told his Japanese hosts: "The two navies that once fought each other in mortal combat now join hands as friends. This ship and this crew are one of the key reasons we want to be partners." During a

tour of the USS Rodney Jameson, Perry commented: "As far as the eye can see, a forward presence of US military personnel [in Japan] will be necessary." Report, Page 5

## Daiwa reform plans rejected by government

By Gerard Baker in Tokyo

Japan's finance ministry yesterday rejected proposed reforms by Daiwa Bank to improve its internal inspection systems after revelations in September of a \$1.1bn loss on US government bond trading.

The ministry said Daiwa's proposals were inadequate and ordered the bank to return within more substantial measures as soon as possible. The rejection is a new blow to Daiwa's reputation, already damaged by revelations concerning the losses, incurred over 11 years by a trader at its New York branch.

Daiwa has been denied substantial business in Japan as a result of the losses, and its operations in the US are on hold pending an investigation by authorities there.

"After examining the latest business improvement plan, the ministry has ordered Daiwa to present additional measures," Mr Masayoshi Takemura, a finance minister, said. Daiwa proposed the reforms to the ministry in an effort to persuade officials that it was serious about improving its risk management systems.

The bank's plan was submitted on Tuesday by senior officials. Details were not disclosed but it is understood to have acknowledged defects in the way Daiwa had supervised its overseas operations.

The proposal contained pledges by the bank to strengthen inter-

nal controls, including the introduction of surprise on-site inspections and the establishment of special investigation teams to examine foreign branches and subsidiaries.

But the report apparently denied that Daiwa had systematically hidden the losses after they had been discovered.

The ministry is already conducting its own investigation and yesterday's tough line suggests it will almost certainly both punish Daiwa and order significant changes in the bank's operations.

Officials are furious with the bank over its handling of the problems. The massive losses have raised international concerns about the stability of all Japanese banks, evidenced by a sharp rise in borrowing costs on international money markets. Finance ministry officials believe most Japanese banks are being unfairly penalised as a result of Daiwa's behaviour.

The bank's response on discovering the losses has been the focus of wide attention by regulators and other banks. Mr Toshihide Iguchi, the trader responsible for the losses, told a New York court that he had been ordered to continue covering up the losses after he had reported them to senior management.

There is also growing suspicion the losses may not have happened the way the bank claimed they did. The scale of the losses - averaging \$400,000 a day for 11 years - struck some bond traders as unimaginably high.

## Average 4.4% GDP increase forecast for E Europe states

By Kevin Dowd, East Europe Correspondent, in London

The period of declining output in eastern Europe since the collapse of communism is over, and prospects for strong growth are "very good", according to the European Bank for Reconstruction and Development.

The bank's annual transition report, published yesterday, forecasts that gross domestic product in 10 countries of eastern Europe and the three Baltic states will grow by an average 4.4 per cent in 1996, compared with 3.3 per cent this year. The fastest growth of around 6 per cent this year is forecast in Poland, Slovenia, Estonia and Albania.

Mr Nicholas Stern, the bank's chief economist, said the Russian economy had also reached a turning point and was expected to grow by about 2 per cent in 1996 after suffering a further fall of 3 per cent this year.

Overall, the economies of the

Commonwealth of Independent States - the former Soviet Union - are forecast to grow by around 3.2 per cent next year after contracting by 3.4 per cent in 1995.

The reports says that in most of eastern Europe the private sector now accounts for more than half of economic activity, most prices are liberalised, and there have been "very few significant reversals of existing reforms". Mr Stern says investment will be the central instrument of change during the next period of the transition. "For the reforms and sacrifices of recent years not to have been in vain, the investment process needs strong support. The quality and level of that investment will shape the transition for the next decade."

"The bank says there are now 'strong opportunities' for both foreign and domestic investors in much of the region, but competition is fierce from other emerging markets. Foreign direct investment in eastern Europe remains

at a low level in particular in comparison with east Asia.

Several key features that have underpinned the growth of east Asia, such as an educated labour force, outwardly oriented economies and competitive real exchange rates, also exist in a number of east European countries, it says.

Last year foreign direct investment in eastern Europe and the former Soviet Union, a region with a population of 400m, totalled only \$5.7bn, however, a similar level to that achieved in Malaysia alone, a country with a population of 19m.

Most investment in eastern Europe in the medium term will have to be financed from domestic savings, but the report warns that the financial sector, including banks, securities markets and insurance companies, remains "in an early development phase".

EBRD praises "fast-track countries", Page 2



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## NEWS: EUROPE

## EBRD praises 'fast-track' countries

By Kevin Done and Anthony Robinson in London

The "fast-track" reforming states of central Europe are enjoying rapid economic growth and an upturn is now in sight for most of the former Soviet states, according to the latest transition report\* of the European Bank for Reconstruction and Development (EBRD).

Poland has emerged most quickly from the shock of the collapse of communism and is now in its fourth year of significant growth, the report says.

Poland is also closest to eliminating the sharp decline of the early transition years and its gross domestic product next year should already exceed the level of 1989.

GDP growth of 5.6 per cent this year is forecast for Poland, the Slovak Republic, Slovenia, Estonia, Lithuania, Albania and Armenia, although growth in Armenia is coming from a very low level.

Inflation is under control in many countries in eastern Europe, with the smallest rates of increase this year (December year-on-year) forecast for Croatia and Albania at 3 per cent and 5 per cent respectively.

Country	Economic growth (%)	Projected level real GDP in 1995 (1989=100)	Private sector share of GDP (%) mid-1995 EBRD est	Purchasing power parity GNP per capita \$US in 1993
Albania	7	6	75	999
Armenia	5	5	45	2,040
Azerbaijan	-22	-15	35	2,190
Belarus	-22	-10	5	6,240
Bulgaria	1	3	75	4,100
Croatia	1	2	84	45
Czech Republic	3	4	85	7,550
Estonia	6	6	75	6,320
Moldova	-7	-3	53	40
Georgia	-35	-5	9	1,750
Hungary	2	3	88	6,090
Kazakhstan	-25	-12	1	28
Kyrgyzstan	-27	-5	8	43
Latvia	2	1	5	5,010
Lithuania	2	5	42	66
Moldova	-22	-5	7	2,870
Poland	5	6	97	60
Romania	3	4	81	2,800
Russia	-15	-3	49	5,050
Slovak Republic	5	5	84	6,290
Slovenia	6	6	5	10,580
Tajikistan	-21	-12	3	40
Turkmenistan	-20	-5	3	63
Ukraine	-23	-5	43	35
Uzbekistan	-3	-4	82	30

\* n.a. = not available. EBRD forecast. \*Average of forecasts from institutions including OECD, IMF, Project Link, PricewaterhouseCoopers, and the World Bank. Source: Transition Report 1995, European Bank for Reconstruction and Development.

Inflation rates of only 10 per cent are also forecast for the Czech Republic, Macedonia, the Slovak Republic and Slovenia.

Inflation in Albania has fallen from 237 per cent in 1992 to only 5 per cent this year, while Estonia is forecast to have cut inflation to 22 per cent by the end of 1995 from 954 per cent in 1992.

The rate of inflation in Macedonia is forecast to fall to 10 per cent from 1,935 per cent in 1992.

Annual rates of inflation of 100 per cent or more are still being suffered in seven countries in the region, all former Soviet states.

The Czech Republic and Hungary achieve most plans from the EBRD for pro-

gress achieved in the transition to free market economies in terms of privatisation and restructuring, the liberalisation of prices and trade and foreign exchange systems, the building of financial institutions and the implementation of legal reforms.

The EBRD estimates that by mid-1995 the private sector accounted for around 70 per

cent of GDP in the Czech Republic, 85 per cent in Estonia, and 80 per cent in Albania, Hungary, Latvia, Poland and the Slovak Republic.

The EBRD report argues that fast reform in East Europe has been "a condition for dynamic investment and not a brake on it". In many cases, including in all of the fast-reforming countries, the share of investment in GDP began to stabilise or to rise at the time of price liberalisation, or within a year of liberalisation.

Bulgaria has a commanding lead in the region in attracting foreign direct investment, which amounted for \$2.8bn of the \$17.7bn invested from 1989 to 1994.

Based on population size, it is followed by Estonia and the Czech Republic, with the latter in second place in absolute terms with \$3bn of foreign direct investment.

By contrast Russia has attracted only \$1.6bn and Poland \$1.5bn.

The main task ahead in the region is to underpin economic recovery by better financing, more private ownership, higher-quality corporate governance and the building up of the banks and institutions needed to sustain a market system.

Trade has played an impor-

tant role in helping countries redirect production towards western markets and stimulate economic growth. "One way to promote the use of outside finance by enterprises is to foster market competition through trade liberalisation and anti-monopoly policies," the report says.

It notes that trade liberalisation is improving again due to the European Union association agreements with central European and Baltic countries.

Privatisation is also still moving ahead throughout the region but is not sufficient on its own to ensure the changes in ownership and managerial culture needed to re-organise and re-capitalise companies and make them competitive in world markets.

"Insider" privatisations, involving the transfer of ownership to workers and management, usually produce inadequate controls or incentives for management to take the often tough decisions required to raise productivity and profitability.

\*European Bank for Reconstruction and Development Transition Report 1995. Investment and enterprise development. Price £25. Available worldwide from EBRD Publications Centre, PO Box 276, London W18 7LT. (44-171-873-9090).

## EUROPEAN NEWS DIGEST

## US 'interviews' for Nato post

The United States will conduct "job interviews" with candidates for Nato secretary general before deciding who will get its support, the White House press secretary, Mr Mike McCurry, said yesterday.

Mr McCurry declined to say how many individuals were under consideration or whether the US favoured a particular successor to Mr Willy Claes of Belgium, who resigned last week over a corruption scandal.

Denmark's former foreign minister, Mr Uffe Ellemann-Jensen, and the ex-prime minister of the Netherlands, Mr Ruud Lubbers, were heading for Washington last night to meet Administration officials.

"We have a very active interest in the question of who will succeed Willy Claes as Nato secretary general," Mr McCurry said. "We have pursued diplomatic discussion on this question aggressively. There have been several mentioned candidates who I expect will soon be in the United States to meet senior ranking officials of our government for what might be described as job interviews." The Nato secretary general will be selected in a vote by Nato ambassadors at a meeting in Brussels in two weeks.

Reuters, Washington

## G7 in talks over Chernobyl deal

Ukraine and the Group of Seven industrialised nations began fresh talks yesterday on financial terms for closing the Chernobyl nuclear power plant.

Ukraine promises to close the plant, the site in 1986 of the world's worst nuclear accident, by 2000 if western countries help foot the bill.

The plant provides 5 per cent of the country's energy needs. Western officials were yesterday optimistic a deal could be reached through a proposed \$3.2bn package of G7 grants, Ukrainian funds and private investment.

The money would be used to decommission the plant and make up for lost energy, probably by upgrading existing power stations. Ukraine also wants a commitment to replace the metal sarcophagus around the plant's stricken fourth reactor.

The current round of talks is scheduled to end tomorrow, with a more senior delegation due in Kiev on November 20. As talks continued, a fire broke out yesterday at the Zaporozhye nuclear power station, one of Ukraine's five plants. The fire was contained to the station offices without endangering the station's four working reactors.

Matthew Kaminski, Kiev

## Finland cuts key interest rate

The Bank of Finland cut its main short-term interest rate yesterday for the second time in a month, saying the outlook for continued low inflation had improved.

The move, cutting the bank's tender rate from 5.5 per cent to 5.0 per cent, comes at a time when Finnish inflation is less than 1 per cent - the lowest in Europe - even though the economy is growing 5 per cent a year.

The bank said import prices were falling, partly because of the strength of the markka, and increased competition was bringing down food prices.

Inflationary pressures have also been checked by a landmark two-year national wage accord, agreed in September, and by a government decision to cut employers' unemployment insurance contributions by 1.5 percentage points next year. The bank expects underlying inflation to rise to about 2 per cent in the second half of 1996 before easing during 1997.

Christopher Brown-Humes, Stockholm

## Romania approves draft budget

Romania's government has approved a draft 1996 austerity budget, with a forecast deficit of 2.9 per cent of gross domestic product, which it will submit to parliament for approval.

The move follows extensive consultations with all parties in parliament. A government statement said the draft was intended to help consolidate macro-economic stability, cut the balance of payments deficit and support industrial restructuring and privatisation.

The Finance Ministry said detailed figures on revenue, spending and the deficit were not available. In drawing up the budget draft the government estimated economic growth next year of at least 4.5 per cent and inflation at not more than 20 per cent.

Romania this year expects a budget deficit of about 3 per cent of GDP. This is within the limits agreed with the International Monetary Fund under an accord signed for a \$700m loan.

Reuters, Bucharest

## Death of former Irish minister

Mr Brian Lenihan (left), the former Irish foreign minister and deputy prime minister who died yesterday aged 64, had been a feature of the Dublin political scene for more than 35 years. Elected to parliament for Leitrim in 1961, he had an unrivalled knowledge of Irish politics, having worked with every Fianna Fail leader since Mr Eamonn De Valera. Mr Lenihan, whose death followed a long illness, was foreign minister in 1987 during Ireland's negotiations to join the Single European Act. He was a progressive reformer as both education and justice minister.

Together with Mr Haughey, he was one of a new generation of Fianna Fail modernisers. Mr Haughey appointed Mr Lenihan as deputy prime minister in Fianna Fail's majority government in 1987.

However, his mentor sacked him when Mr Lenihan refused to resign after accusations that he tried to influence the outcome of the presidential election in 1990 when he lost a contest with Mrs Mary Robinson, the Labour party's candidate.

John Murray Brown, Dublin

## Surge in Turkish trade deficit

Turkey's trade deficit increased almost fourfold in August, the government announced yesterday. The deficit rose to \$1.44bn from \$373m in August last year.

Although exports increased by 15 per cent to \$1.75bn, imports climbed by 69 per cent to \$3.19bn. Rapid recovery from last year's severe downturn, beginning in the second quarter of this year, increased Turkey's demand for imports.

Economists said most of these imports were capital goods and raw materials, reflecting both a sharp increase in investment and an increase in industrial activity.

They said comparison with last year's figures was misleading because of unusually weak demand for imports in 1994.

However, with a deficit of \$8.044bn in the first eight months of this year, which is more than twice that in 1994, Turkey may equal or exceed its \$14.08bn deficit in the boom year of 1988.

■ The Danish purchasing managers' index fell to 52.3 per cent in October compared with 57.4 per cent a month earlier, said the Danish Purchasing and Logistics Forum, a private statistics agency. This is the lowest level the index has been at since it was launched in May last year. The index is not seasonally adjusted.

■ New car registrations in Sweden rose 22 per cent to 16,686 in October compared with last year, the Swedish car registration authority said. In the first 10 months of 1995 new car registrations have risen 10 per cent over the same 1994 period.

## Envoy recalled Crunch time in 'radish' states as Baltics argue over oil

By John Thornhill in Moscow

Lithuania yesterday announced it was recalling its ambassador from neighbouring Latvia in protest at the planned development of a disputed oilfield off the Baltic coast.

Lithuania has been angered that Latvia this week signed an agreement with Amoco, the US oil group, and Sweden's Olje Prospektering to explore and develop a field in the Baltic Sea without first settling outstanding border claims between the two countries. The Lithuanian government has sharply criticised Latvia's move, saying the contract threatened to violate the country's sovereignty.

Industry experts said a small prospecting project to evaluate the Baltic Sea's reserves would begin next spring and could lead to investment of up to \$1m.

Amoco said implementation of the exploration agreement was dependent on a resolution of the maritime border dispute between Lithuania and Latvia. But it stressed that the quantity of reserves in the Baltic Sea was highly uncertain, with only two of 50 test drills having struck oil.

The most optimistic forecast, the company said, was that it might drill up to 60 wells at a cost of \$1bn, which would be

expected to produce oil early in the next decade.

At the signing ceremony, Mr Maris Gylis, the Latvian prime minister, said the deal did not cover the area at dispute between the two countries and gave assurances that no development would take place before the differences had been resolved.

But the Lithuanians were clearly not mollified.

"Since Latvia provided no official information in response to numerous Lithuanian expressions of concern, we are recalling our ambassador, as we need time to evaluate the current state of Lithuanian-Latvian relations," a Lithuanian foreign ministry official said.

The three Baltic states, which all aspire to membership of the European Union, are frequently bracketed together by the outside world but each boasts distinctive traditions and cultures.

Relationships between the three countries have generally been good in the face of their overhanging Russian neighbour and several pan-Baltic organisations have been formed to co-ordinate trade and economic activities.

But it is still difficult to travel directly between the capitals of the three countries and border checks remain rigorous.

## John Thornhill reports on problems in Estonia, Latvia and Lithuania

A Russian-speaking Estonian complains: "Our leaders are all rabble. They are all former communists: while they were red on the outside, they claim they were always white on the inside. But what have they given us? Only unemployment and foreign restaurants: two Indian, three Chinese and two Korean. The food is too hot and expensive. Who needs them?"

Not a textbook political analysis, perhaps, but a view that reflects a more general sense of disenchantment in the three Baltic states.

After seizing their independence from the crumbling Soviet Union in 1991, the three small but intensely individualistic countries have made striking progress towards establishing market economies and multi-party democracies. But as the first winter winds can be felt in the streets of the region's ancient capitals, there seems to be a sense of unease about the future - at times tinged with the bizarre.

In Lithuania last week, 7,000 protesters staged the biggest demonstrations since Soviet times, marching through the capital, Vilnius, to protest at the social pain inflicted by economic reform. Other Lithuanians, though, appeared more concerned to build the world's first monument to Frank Zappa, the zany American musician who struck an anti-establishment chord.

Further up the Baltic coast, in Latvia, many people appear to have gone on a tax strike after the collapse of several big

banks, causing worrying monetary problems for the government. In recent elections, they also voted heavily for a demagogic German émigré who speaks almost no Latvian but who courted popularity by doling out free bananas and aspirins. Even Estonia, which prides itself as the most sophisticated of the three states, has just been rocked by a ministerial bugging scandal which led to the resignation of the government and prompted the president to warn of "a crisis of the democratic state".

Estonia's police, meanwhile, spent their time seizing the print run of a weekly magazine accused of running advertisements for prostitutes.

From one perspective, these latest ructions may reflect no more than the Baltic interpretation of worldwide anti-establishment sentiments among voters. Such trends can easily be accentuated in countries

experiencing rapid and unsettling change, and which are still trying to reconstruct a civil society brutalised by 50 years of Soviet oppression.

As an anguished liberal commentator wrote in Diena, the daily Latvian newspaper: "The elections to the sixth Sejm [parliament] turned into a powerful demonstration of people's protest, where the ovations were reserved for those orators who successfully listened to the people and who, like a storm, blew away the top politicians from Mount Olympus. The rage of the people must be recognised, even if it is not always justified."

Local commentators suggest the political uncertainties have been exacerbated by the unequal distribution of the fruits of economic progress. While many of the "insiders" in the old communist regimes have grown rich by channeling cheap Russian commodities to world markets and exploiting the privatisation process, the "outsiders" have had to endure high inflation, falling living standards, a rise in unemployment and, in Latvia, a full-scale banking crisis which has wiped out many depositors' savings.

Mr Teodor Tverjans, president of the Association of Commercial Banks of Latvia, says 15 of the country's 55 banks have closed in the past six months and estimates that about 200,000 depositors lost 60m lats (\$120m) as a result.

"With hindsight, it might prove to have been a beneficial purification process. Confidence is being restored and

bank deposits have risen again in August and September," he says. "But the people's belief in the system was temporarily destroyed."

In Estonia, even the officials are not certain how to interpret what is going on in their economy. The central statistics office believes the economy contracted 3 per cent last year; the central bank thinks it grew 5 per cent.

But, whatever the statistics, Mr Boris Zamojst, local representative of the International Monetary Fund, is effusive about the general trends, citing a stable currency, suppressed inflation, the almost complete liberalisation of foreign trade, and low interest rates. "This is a country on the right path," he asserts.

Despite the current uncertainties, the three countries still appear determined to break with their Soviet inheritance and re-integrate themselves with the west.

This month, Latvia submitted a formal bid for membership of the European Union; the political leadership of the region still hold out hopes of joining Nato.

But a substantial ethnic Russian population remains a potentially destabilising force and their more extreme representatives have been drawing succour from the renewed wave of nationalism in Moscow. Nonetheless, most commentators still believe that progress towards liberal market economies stands more chance of success in the Baltic states than anywhere else in the former Soviet Union.

## Yeltsin raises minimum wage and pension

By Christia Freeland in Moscow and agencies

Mr Boris Yeltsin, Russia's president, yesterday signed laws increasing the minimum wage and minimum pension by 15 per cent, to be phased in over the next two months.

In a sign that Mr Yeltsin may be regaining his health after a mild heart attack last

Thursday, he met Mr Victor Ilyushin, a senior Kremlin adviser, the first political official to see him since he was admitted to hospital.

Until yesterday, the final day for registration of electoral blocs, doctors had barred access to Mr Yeltsin except for family and security guards. This contributed to speculation that his condition may be

more serious than Kremlin officials suggested. No pictures or television footage of the president have been released.

Doctors say Mr Yeltsin will be under close medical supervision until the end of this month and will be confined to bed until the end of this week. But a stream of official health updates, backed by comments from his wife, Naina, and the

meeting with Mr Ilyushin, indicated he was ready to resume running Russia from his hospital bed.

The minimum wage increase is an apparent effort ahead of December's parliamentary elections to appease disgruntled voters hurt by the government's austere budgetary policies, which have led to a drop in living standards. It is also a

sign of the success of the harsh measures in stabilising the economy. Mr Yevgeny Yasin, the minister of the economy, said yesterday inflation in October was likely to come in at 4.9 per cent.

Although the rate was 0.4 per cent higher than in September, it represents a significant achievement because in previous years the Russian government has abandoned its stringent policies in August, leading to an autumnal jump in inflation.

Meanwhile, Mr Grigory Yavlinsky, the leader of Yabloko, Russia's second most popular political party, yesterday launched an appeal to the Supreme Court over a weekend ruling to ban his party from the elections - because it had violated rules by dropping six candidates from its list against their wishes.

The ruling by the electoral commission has stirred a political storm in Moscow and cast doubt on whether the elections would be conducted in a democratic manner.

Mr Yeltsin's press service said yesterday that the Kremlin chief was confident the Supreme Court would hand down judgments "in full accordance with the law".

Other democratic groups have supported Mr Yavlinsky, while the election favourites, the Communist party, says the whole issue could be a publicity ploy.

The electoral commission says that it has officially registered a total of 35 parties, including most mainstream

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## NEWS: EUROPE

# Holbrooke sees 'tough slog' to achieve peace in Bosnia

By Jurek Martin  
in Washington

Mr Richard Holbrooke, the chief US negotiator, predicted "tough slogging" in the Bosnian peace talks which opened at a military base near Dayton, Ohio, yesterday.

In a last-minute blizzard of interviews before Mr Warren Christopher, the secretary of state, called the presidents of Bosnia, Serbia and Croatia into an opening plenary session, Mr Holbrooke said it would not be easy to reconcile their differences.

He described friction within the Bosnian delegation as "a major concern," was cautious about whether Croatia could be disarmed from invading its Serb-held region of eastern Slavonia, and was forced to go to some lengths to defend the participation of President Slobodan Milosevic of Serbia. The latter is accused by Bosnians of complicity in atrocities committed in Srebrenica and elsewhere.

But, he added, "you don't make peace with friends," and observed that all three had committed themselves to trying to negotiate a settlement. "They came because they all see that a military victory is no longer possible for any of the combatants."

That sentiment was echoed by Mr Christopher on his arrival at the Wright-Patterson air force base. "I hope that some day Dayton, Ohio, will be remembered as the site where



Mr Holbrooke (right) and Bosnian PM Haris Silajdžić confer on the latter's arrival in Dayton, Ohio yesterday

the killing was finally brought to a halt and we started building a better future for all the people of the former Yugoslavia," he said.

Following the opening session with all present, including

officials of the five-nation "contact group" and Mr Carl Bildt, the EU representative, the negotiations take the form of "proximity" talks, with Mr Holbrooke shuttling between delegations housed in relatively

spartan, but equal, accommodations.

The US team has drawn up several concrete proposals, covering territorial divisions, arms reduction, political and electoral arrangements and a document on the future of Sarajevo, the capital of Bosnia.

No time limit has been set, though US officials hope for a resolution within 2-3 weeks. President Franjo Tudjman of Croatia will leave the talks later this week to return to Zagreb for a couple of days, but otherwise the US hope is that there will be no break in the negotiations.

The media will be kept off the base after the opening round and all news is to be disseminated from the US side, by the State Department spokesman in Washington. However, all three delegations have telephone contact with the outside world and US officials concede that some leaks are inevitable.

Mr Holbrooke said it was "not my role here to make a judgment" on President Milosevic's protestations that he neither knew of nor condoned the Srebrenica atrocities. But he added: "You can't make peace without President Milosevic."

He noted that Mr Radovan Karadzic and General Ratko Mladic, the political and military leaders of the Bosnian Serbs, would have been arrested for war crimes had they come to the US.

Editorial Comment, Page 15

## German steel industry reduces workers' hours

By Michael Lindemann in Bonn

Leading German steelmakers have put parts of their workforces on short-time working because new orders have recently fallen by up to 10 per cent compared with a year ago.

The fall in new orders may be an early indicator of another steel recession which, on the basis of previous steel cycles, might begin in 1997. However, the companies insisted that the fall in new orders did not immediately represent falling demand for steel in the car industry or among engineering companies. "Demand has remained constant," a spokesman said.

During the past year orders had risen rapidly as steel traders and others replenished the stocks they had run down during the last recession in 1993

and early in 1994.

Industry sources also said that German steelmakers - including companies such as Thyssen, Krupp Hoersch and Preussag - were trying to slow production over the next few months in order to keep prices steady during annual negotiations with the car industry, the steelmakers' most important clients.

Thyssen Stahl, Germany's biggest steelmaker, said about 1,500 of its flat steel employees - about 4 per cent of the company's total workforce - would be working short-time in November and December.

Preussag said part of 7,000-strong flat steels workforce would begin short-time working in November and that this would continue until the end of the year. "In the first quarter of next year we expect to be

working normally again if everything stays as it is at present," the company said.

Thyssen said that by ordering short-time working German steelmakers were simply following other European steelmakers such as British Steel and Usinor Sacilor of France which had started short-time working earlier this year for the same reason.

Thyssen said new orders had fallen 10 per cent in the third quarter of this year compared with the same period a year earlier. The company said, however, that its most recent financial year, which ended on September 30, had been "excellent" for steel and that it expected another "very good steel year" next year. "Historically a steel recession would then come some time in 1997," the company said.

## EU rules row blocks \$300m loan to Greece

By Karin Hope in Athens

The European Investment Bank is blocking loans of more than \$300m to Greece's state electricity utility for two big projects because of a dispute among Greek officials over compliance with EU environmental rules.

The EIB, which provides long-term loans at favourable interest rates for projects in EU member states, is refusing to release funds to the Public Power Corporation (PPC) until the projects are approved by the Environment Ministry.

The ministry has delayed issuing approvals because of arguments with the PPC over how stringently EU environmental standards should apply.

The EIB's block on lending reflects impatience with Greece's record on implementing EU environmental rules and the political infighting between the country's public administration and powerful state-controlled corporations.

"The Environment Ministry has to be more effective at imposing the correct standards," one official said. Last week the EIB told PPC no future loans would be approved unless the utility set up a monitoring unit to co-ordinate environmental policy and keep in touch with residents in areas where new projects are planned.

Environment Ministry officials said yesterday they were close to approving the PPC's environmental impact study for one project, the Agios Dimitrios power plant in northern Greece. A full study for the other project, a desulphurisation unit to reduce emissions at a power station at Megalopolis in the south, has not been submitted.

Both plants are fuelled by lignite, a coal producing high levels of sulphur. Recent lignite is mined by PPC at open-cast mines and carried on conveyor belts to power stations, dust can also cause environmental problems.

PPC would normally be eligible for EIB loans covering up to 45 per cent of the total cost of both projects, estimated at more than \$300m. PPC is the bank's largest Greek borrower, with more than €m700m (\$917m) in outstanding loans, equivalent to 15 per cent of total EIB exposure in Greece.

PPC officials deny they are indifferent to environmental standards. They claim the Environment Ministry delays approving environmental impact studies for new power projects because, allegedly, it lacks the expertise to evaluate them.

Environment ministry officials claim PPC has tried to push ahead with new projects in defiance of EU rules. One said: "It's only since the EIB blocked the loans that the PPC started to talk to us seriously about compliance with environmental legislation."

## Greater flexibility is aim of French accord

By John Riddling in Paris

France's trade unions and employers' federation have reached outline agreement on increasing the flexibility of working hours and paving the way to a shorter working week, although one leading union refused to sign. The agreement, reached late on Tuesday night after eight months of talks between unions and the Patronat, mandates industry and union organisations to negotiate cuts in the standard 38-hour week. Negotiations are due to start by the end of January.

Mr Alain Juppé, the prime minister, welcomed the accord between the Patronat and four of the country's biggest unions as "extremely positive". Mr Jean Gandois, the employers' leader, told the daily Le Monde

that the agreement could create 300,000-400,000 jobs over the next two years.

Under the terms of the framework agreement, employers can average out annual working hours to increase flexibility in labour supply and demand. In return, they have accepted the principle of a reduction in total working hours. However, important questions concerning a reduction in the overall hours worked annually and corresponding reductions in pay have been left to the local and industry branch talks.

Reduced working hours have long been at the centre of the political agenda, reflecting France's chronic unemployment problem. Figures this week showed a sharp rise in joblessness in September and an increase in the unemployment

rate from 11.4 per cent to 11.5 per cent. The second consecutive increase has fuelled fears about a slowdown in the economy and a reversal of the past year's trend of falling unemployment.

Referring to the agreement by employers to negotiate reduced working hours, Mrs Nicole Notat, head of the CFTD union federation, said "a taboo has been lifted". Force Ouvrière, the CFTC and the CFE-CGS were the other unions which backed the second.

However, the Communist-led CGT refused to sign the agreement, claiming it was "aimed at increasing the flexibility of companies without really creating jobs". The union said the averaging of working hours over the full year was "just a charter for unpaid overtime".

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## NEWS: WORLD TRADE

## German 'job exporting' debate is renewed

Record outward investment figures focus attention on employment costs, writes Michael Lindemann

When the government in Bonn publishes figures of German companies' investments abroad, the talk tends to be not about where the money has gone, but how many jobs may have gone with it.

The debate about the future of jobs in Germany, which are already the most expensive in the European Union, is set to become louder after German companies invested a record DM28bn (£12.7bn) abroad in the first six months this year.

The figure, published last week, is 212 per cent higher than for the same period a year earlier and comes just weeks after a controversial decision by Siemens, the electronics group, to spend DM2.5bn on a new semiconductor plant creating 1,000 skilled jobs in northern Germany.

Analysts point out that the outward direct investment figures include foreign acquisitions by German companies seeking new markets abroad, such as Allianz, Europe's biggest insurance company. But the underlying trend suggests that German employers, particularly in the chemicals and motor vehicle industries, are continuing to seek out cheaper foreign locations.

While German direct investment abroad has been growing steadily in recent years - and

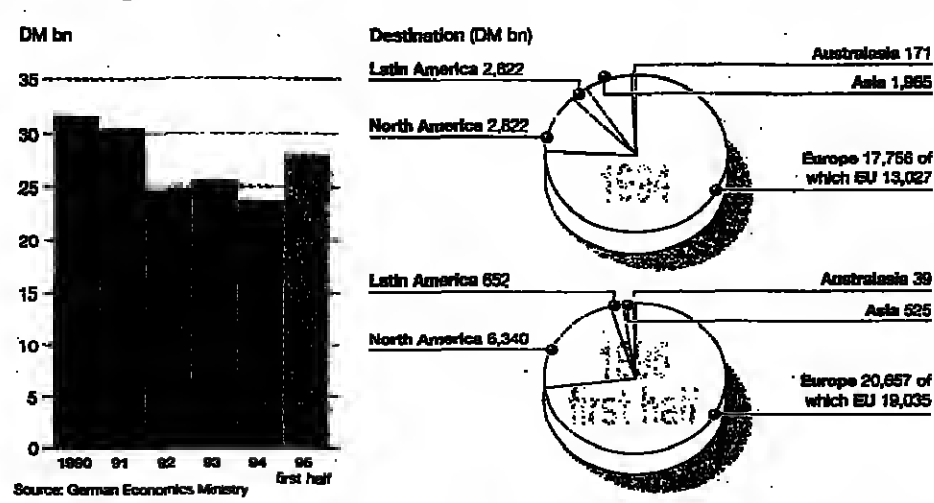
has consistently outstripped that by foreign companies in Germany - the latest figures will serve to concentrate the minds of Chancellor Helmut Kohl, industry leaders and trade union officials who have been trying recently to find ways of keeping jobs in Germany.

The investments abroad are a particular bane for Mr Hans-Olaf Henkel, head of the Federation of German Industry, or BDI, who estimates that 300,000 German jobs have migrated abroad in the past five years. "Foreign companies hardly ever invest in German industrial jobs any more," he told a recent German economic summit. "And a growing number of our investments abroad are not based on efforts to expand existing markets or break into new ones but are influenced by the costs in Germany."

The Federation of German Trade Unions this week accused Mr Henkel of trying to "scare the nation" with his figures on job losses. But there is also evidence that those costs continue to rise.

Last week contributions to the German state pensions scheme, under which employees make payments that are matched by their employers, rose from 18.6 per cent to 19.2 per cent. At the same time the Federal Association of Energy

Germany: direct investment abroad



Source: German Economics Ministry

Users published figures showing that in some cases electricity in Germany costs 35 per cent more than the average price in EU countries.

More than half the DM28bn invested abroad has gone to five west European countries where German companies have been expanding in recent years. Britain, where labour costs are lower than German ones, was the main destination for German investments in the first half of this year and last year.

While many companies are

reluctant to admit they are exporting jobs, Thyssen, the steel and engineering group, makes no bones about it.

In recent years Thyssen has bought a number of UK companies specialising in castings and pressed metals for the motor industry.

"It's most definitely a question of exporting jobs," said Mr Peter Blau, a Thyssen spokesman. "When it comes to making the same products with the same number of people we can make a profit in the UK but are still

making losses in Germany." It is difficult to say what other factors are influencing German investment decisions because neither the Economics Ministry nor the Bundesbank is allowed to give a precise breakdown of the figures.

Several German companies made big acquisitions abroad during the six-month period as part of their international expansion plans which have no direct impact on German jobs. Allianz, for instance, spent about DM5bn to buy insurance companies in Italy and Switzerland.

land. BASF, the chemicals group, spent around DM2bn to buy the prescription drugs arm of Boots, the UK retailer, saying the purchase would give the German group access to foreign markets and extend its products range.

Two factors which have helped determine other recent German investment decisions, while not a big part of the latest figures, are likely to ensure that future direct investment outflows remain high, according to Mr Gert Schmidt, a spokesman for the IKB Deutsche Industriebank.

One is the need to manufacture with a high local content - a decision driving many German investments in Asia. The other is the trend to move production to Germany's cheaper eastern neighbours.

While the sums being invested in former communist countries are small, the investment flows are steady and likely to grow significantly, Mr Schmidt said.

Meanwhile, inward investment rose by 277 per cent during the first six months, but the amount remains relatively low at DM6.64bn. Some 76 per cent of that is described as investment in "services provided for companies", a category which covers legal and transport services and data processing.

## Renault wins big order for electric cars

By John Ridding in Paris, Christopher Brown-Humes in Stockholm and Heig Simonian in London

Renault has won what it claims to be the world's biggest single contract for electric cars with the sale of 150 vehicles to Nutek, a Swedish public sector organisation promoting energy conservation and technology.

An electric version of the French company's Clio hatchback will be tested by a 25-strong group of local authorities and public and private sector companies.

Nutek said the final order could reach 1,000 vehicles if more buyers come forward. That would give a big fillip to the gradually expanding electric car market.

Larger orders have been made for electric utility vehicles, such as rubbish disposal and delivery vans, but electric car orders have been for small batches.

Nutek, which supplied the specifications for the tender, will provide a subsidy of SKr15,000 (\$2,373) per vehicle. Each car, which has a top speed of about 95kph and a range of 85km, will cost around SKr200,000.

In Europe, Sweden claims to be at the forefront of the commercial introduction of electric and hybrid cars. Electric cars produce only 10 per cent of the greenhouse gases and 30 per cent of the pollution of normal cars, and trial projects are under way in Stockholm, Gothenburg and Malmö, Sweden's three largest cities.

In California, which is leading the world drive for low-emission vehicles, electric vehicles will be on sale from 1998 as part of a campaign to reduce pollution.

The Swedish contract comes as the French government and the country's car manufacturers are making a concerted push into electric vehicle development.

In April this year, the French government and Electricité de France, the state utility, announced a promotion scheme which provides a subsidy of FF15,000 for electric car customers.

The subsidies, which are due to last until the end of next year, are designed to help encourage mass production of electric vehicles and to attain a market of about 100,000 electric cars in France by the year 2000.

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## WORLD TRADE NEWS DIGEST

## Piqued minister calls off meeting

Attempts to renegotiate the \$2.8bn Dabhol power project, "cancelled" in August by the Indian state government of Maharashtra, fell foul of pride and protocol yesterday when the state's chief minister called off the first meeting with officials from Enron, the US power group leading the project, because they turned up late.

"They have not come on time, so I cancelled it," said Mr Manohar Joshi, the state's chief minister. "If they want to meet the head of state, they should be punctual." Mr Joshi's Hindu nationalist government has agreed in principle to reopen talks on the project.

Enron immediately released a formal apology for missing the meeting. Mr Kenneth Lay, Enron's chairman, and Ms Rebecca Mark, the chief executive officer, were apparently detained by an earlier meeting with Mr Bal Thackeray, who heads the Shiv Sena party, senior partner in the state's ruling Hindu nationalist coalition. Enron reiterated its commitment to the negotiation process, while Mr Joshi suggested he would "decide in due course" on a future meeting. The incident is not expected to prevent the resumption of talks.

The state government has agreed to reopen talks on the project, a two-phase 2,015MW power plant which is India's biggest foreign investment, provided Enron addresses the issues of reducing the cost of the project, cutting the eventual power tariff and the impact on the environment. Enron has said it would.

Mark Nicholson, New Delhi

## EU holds out on WTO disputes

The World Trade Organisation was yesterday forced to adjourn a meeting of its dispute settlement body after the European Union said it was not ready to agree a proposed list of nominees for the organisation's new appeals tribunal.

Mr Don Kenyon, DSB chairman, said he hoped to reconvene the meeting in "no more than a few days". On Monday EU ministers said they would accept a single seat on the seven-person tribunal rather than the two they had originally demanded, provided the representation of the Asia-Pacific region was also reduced. The proposed list includes four candidates from member countries of the Asia-Pacific Economic Co-operation forum - the US, Japan, the Philippines and New Zealand. The others are from Germany, Egypt and Uruguay.

Trade diplomats in Geneva said yesterday that Brussels would almost certainly fall in its bid to amend the list. "We have been round the course many times and the list is balanced," one official said.

Members of the appeals body are supposed to be "broadly representative" of the WTO membership and will be required to operate independently of nominating governments. Three judges will bear each appeal.

Frances Williams, Geneva

## Suez Canal cuts tanker tolls

The Suez Canal yesterday said it would reduce tolls for crude oil tankers by 20 per cent to reverse a sharp fall in traffic on the waterway. Mr Ezzat Adel, chairman of the Suez Canal Authority, said the discount would take effect from January 1 and covered all crude oil tankers, loaded or empty, passing between the Red Sea and the Mediterranean. Charges on all other ships would be frozen for a second year running to help the canal tolls stay competitive, he added.

Last year the number of ships using the Suez Canal, a source of foreign currency revenue for Egypt, fell by nearly 1,000 to 16,370. It was the lowest since 1976 when the canal was still recovering from seven years of closure following the 1967 Arab-Israeli war. Crude oil shipments also fell back last year to just under 34m tonnes, compared to 42m in 1993.

The canal faces competition from the Sumed pipeline, which pumps crude oil from the Red Sea to the Mediterranean, and from the Cape route.

Reuters, Cairo

## Contracts and ventures

General Electric unit GE Aircraft Engines has won an order worth \$145m from the Spanish Air Force for 51 of its F404-GE-400 fighter engines. Spain will take delivery of 13 of the engines this year and the remainder will be delivered by 1998.

AFX News, New York

DTZ Debenham Thorpe of the UK, CB Commercial of the US and C Y Leung of Hong Kong are jointly marketing one of Beijing's biggest retail and office developments comprising 1m sq ft in the city centre. The firms, which have been appointed leasing agents for the Beijing Oriental Plaza, are negotiating with a number of international retailers interested in becoming anchor tenants.

Andrew Taylor, Construction Correspondent

Kia, South Korea's second largest vehicle maker, and Ford Motor Credit, a unit of Ford of the US, have established a joint venture car finance company for Korean buyers. Kia Ford Credit Finance has an initial paid-in capital of Won33.3bn (\$46m) which will be increased yearly, Ford said. The venture will be launched on January 1, 1996 in Seoul, with plans to expand nationwide. The car financing joint venture will not limit itself to financing Kia and Ford car buyers.

Reuters, Seoul

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## NEWS: ASIA-PACIFIC

## US and Japan seek to defuse bases row

By William Dawkins in Tokyo

The US and Japanese governments yesterday moved to defuse the crisis over their security alliance by confirming there would be no cuts in US forces stationed in Japan.

In return, Mr William Perry, US defence secretary, agreed in meetings with senior Japanese officials and politicians to discuss moving some troops based on the southern island of Okinawa, on to the Japanese mainland.

The accord is intended to assuage the outburst of Japanese public resentment at the US military presence provoked by the alleged rape in early September of an Okinawan schoolgirl, over which three US servicemen have been charged.

It has aroused worries in Washington and Tokyo that Japanese public support for the alliance, seen as crucial to

Asian security, has declined since the Soviet Union collapsed. The US military sees Okinawa as vital to projecting its presence in south-east Asia.

The island hosts three-quarters of US military installations in Japan, including, Mr Perry said yesterday, 30,000 of the 47,000 US troops stationed there. Islanders have long complained they bear more than

their fair share of Japan's defence burden.

Meetings yesterday between Mr Perry, Mr Yohei Kono, Japan's foreign minister, and Mr Saishiro Eto, director-general of Japan's defence agency, agreed to set up a panel of top officials from each side to negotiate the consolidation of US bases in Okinawa.

Prime Minister Tomiichi

Murayama also agreed with Mr Perry that the two sides should issue a strong statement stressing the importance of the security alliance when Mr Murayama and US President Bill Clinton hold a summit in Tokyo on November 20.

Yesterday's accord should smooth the way for Mr Murayama to persuade the island's governor, Mr Masahide Ota, to

drop his refusal to sign leases for land occupied by the US military, due for renewal from next March. The agreement speeds an existing US-Japan review of US bases in Okinawa, designed to reduce the amount of land they occupy.

In a gesture to Japanese sensitivities, Mr Perry repeated US apologies for the alleged rape. "On behalf of all members of

the armed forces, I want to express my sorrow and anger." He wanted to apologise for the pain and concern the matter had caused the Japanese people, he added.

However, he resisted Japanese requests to revise the so-called status of forces agreement, which lays down the legal conditions under which US troops are based in Japan. The two sides should use an existing joint committee, or the new Okinawa panel, to sort out difficulties, he said.

While yesterday's accord patches up the immediate crisis, it may take longer for Japanese public resentment to subside. Asked whether the continued presence of 47,000 US troops was necessary, Mr Koken Nosaka, chief cabinet secretary, replied: "Are the 47,000 troops absolutely necessary? The US is saying they are."

## MERRILL LYNCH PUNISHMENT TO BE ANNOUNCED TODAY

Japan's Finance Ministry will announce sanctions today against the Tokyo branch of Merrill Lynch, the US investment bank, for violations of share trading rules, writes Gerard Baker. Mr Masayoshi Takemura, finance minister, said yesterday officials had been interviewing Merrill's managers responsible about the case this week. He added that action would be taken in line with last Friday's recommendation by the Securities and

Exchange Surveillance Commission that Merrill be punished for illegal trading.

The punishment is thought likely to be mild, however, in line with the venial nature of the offence. Most likely is a two-day suspension of the company's relevant Tokyo operations.

Merrill is accused of having improperly traded stocks of companies for which it had acted as underwriter. Under ministry rules, brokers may trade such shares only

in order to stabilise the price in an initial trading period. The SEC found that Merrill had broken the rule over a period of several years. But it stressed that it did not believe the violation had been intended to manipulate the price of the shares. Merrill's lawyer acknowledged last week that the company had committed a technical infringement of the ministry's rules and said the company would comply with the authorities' instructions.

## Critics point to falls in stock exchange prices

## Thai finance minister under pressure to quit

By Ted Bardacke in Bangkok

Thailand's finance minister, Mr Surakiat Sathirathai, is fighting for his political future amid calls from members of the country's ruling coalition for him to step down in an effort to protect the image of the new Thai government.

Mr Banham Silpa-archa, prime minister, said yesterday that he had no plans for an immediate cabinet reshuffle, despite pressure for change from prominent members of his own Chart Thai party. Mr Surakiat said he did not feel his position was being threatened by the prime minister, to whom he is very close.

Mr Surakiat, an international law expert and an adviser to several Thai leaders in the past, was appointed from outside parliament three months ago amid heavy criticism that he had no direct experience with finance and banking.

Although he has slowly won

over some initial scepticism, the poor performance of the Thai stock market, down over 12 per cent since his nomination, has made him an easy target for the unruly politicians of Mr Banham's fragile seven-party coalition.

In a poll of Bangkok residents, due to be released today, 60 per cent of respondents say changes to the cabinet are needed in order to protect the image of the government and the ministry seen as most in need of a change is finance.

"Thai society has always linked the price of shares on the stock market to the performance of the finance minister. This is a problem and I'm quite worried," Mr Surakiat said. "By this measure, no finance minister in the region is performing well."

But many observers believe that Mr Banham will not be able to contain pressure from within his coalition and that a cabinet reshuffle will occur before the next session of par-

liament, scheduled for March. Such a reshuffle would allow Mr Banham, a conciliatory leader, to dole out favours to some of his powerful supporters.

Most vulnerable would be the two non-elected cabinet members, Mr Surakiat and Mr Kasem Kasemsart, foreign minister, who both lack personal power bases.

Politicians calling for a reshuffle have said it is needed to improve the image of the government in the press and among urban elites.

Yet some analysts note the two cabinet members under fire are also two of the most competent members of the government.

Replacing them with traditional patronage politicians, these analysts say, could worsen the government's image rather than improve it and therefore actually hasten the government's collapse. No elected Thai prime minister has ever served out his full four-year term.



South Korea's former president Roh Tae-woo arrives for interrogation by prosecutors yesterday after admitting last week he amassed a Won500bn (\$653m) slush fund during his 1988-93 term.

## ASIA-PACIFIC NEWS DIGEST

## Thousands flee besieged Jaffna

Thousands of Tamil families are fleeing Jaffna, capital of Sri Lanka's northern province and long-time stronghold of secessionist rebel forces, as the army pursues its campaign to retake the now nearly deserted city. An official of the Tamil United Liberation Front, the island's largest Tamil parliamentary party, said the Tamil "Tiger" guerrillas had already "vanished".

The Liberation Tigers of Tamil Eelam took a severe beating on Tuesday in the battle for Neerveli, a small town 7km from Jaffna. "The LTTE tried to take the army head-on and lost too many men. They should have stuck to their guerrilla warfare at which they are really first-rate," said Lt Gen Dennis Perera, a former army commander. Diplomats in Colombo and the opposition parties expect that Tamil expatriate groups may now canvass support for international mediation. The government is not likely to consider this until the army moves into Jaffna and hoists the Sri Lankan Lion Flag once more at the Government Agent's office.

Mervyn de Silva, Colombo

## Indian protests shut KFC shop

Kentucky Fried Chicken, the US food giant, closed its outlet in the southern Indian city of Bangalore for a day yesterday as thousands of farmers held a rally against multinational companies in India. Mr M.D. Nanjundaswamy, who leads a farmers' group in the state of Karnataka of which Bangalore is the capital, had threatened that activists would disrupt operations at the store in protest against India's economic liberalisation programme.

"Multinationals are here to loot the country and the government is being a party to it by inviting them," Mr Nanjundaswamy alleged. KFC has opened two stores in India this year, including one in New Delhi, under the liberalisation policies of Premier P.V. Narasimha Rao. KFC and Pepsi-Cola have become symbols in a protest against foreign companies. Several international computer groups have offices in Bangalore, but the protesters were not targeting them.

Reuters, Bangalore

## Suit seeks Y26bn over air crash

Japanese and Taiwanese relatives of almost half the 264 people killed in the 1994 crash of a Taiwanese Airbus filed a suit with a court in Japan yesterday seeking Y26.7bn (\$180m) in damages. It was the biggest single damages suit in connection with an air crash in Japan. Relatives of 121 victims - 92 Japanese and 29 Taiwanese - of the crash at Nagoya airport in central Japan filed the suit at the Nagoya District Court. It demands that China Air Lines and Airbus Industrie pay Y100m in damages for each victim, plus compensation for their lost earnings.

Only seven passengers survived the crash on the evening of April 26 last year, in what was Japan's second worst aircraft disaster. Of the 264 killed, 154 were Japanese. The largest previous air crash suit in Japan was filed by relatives of 55 victims of the 1985 Japan Airlines crash, seeking Y13bn. In that crash, an out-of-court settlement was reached, but the details were not made public.

Reuters, Tokyo

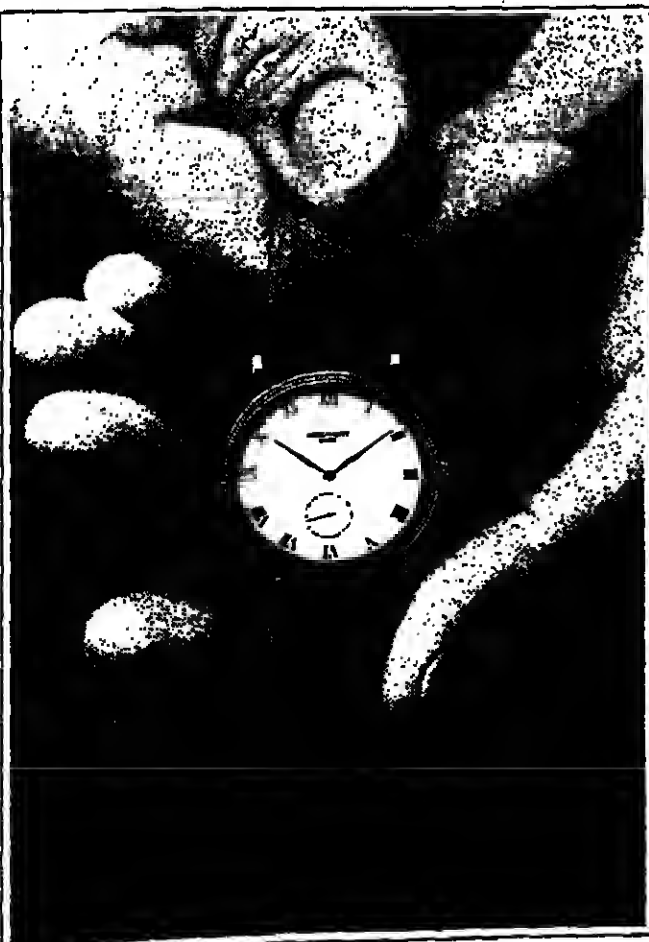
Private sector proposals totalling \$8bn (\$3.8bn) to develop India's outdated ports have breathed new life into a stalled three-year-old privatisation scheme, India's Surface Transport Ministry said.

Reuters, Bombay

South Korea's customs-cleared trade deficit in October dropped to \$165m (\$104m) from \$234m a year earlier, provisional Trade Ministry figures showed.

Reuters, Seoul

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Men's Calendar - Ref 3919

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## NEWS: THE AMERICAS

## Quebec business braces for rough ride

Popular separatist Lucien Bouchard is tipped to take over from Parizeau

By Robert Gibbons in Montreal and Bernard Simon in Toronto

Quebec business leaders are bracing for a long period of uncertainty amid indications that secessionists will continue their drive for independence after Monday's narrow referendum defeat.

However, some Montreal businessmen expressed guarded optimism that the resignation of Mr Jacques Parizeau, the hardline secessionist premier, would spur the Parti Québécois government to give greater attention to economic issues. Mr Parizeau, who announced his resignation on Tuesday, has been preoccupied with the independence project since the PQ took office 14 months ago.

The front-runner to replace him is Mr Lucien Bouchard, the more pragmatic leader of the Bloc Québécois, the group which represents the separatist cause in the federal Parliament. Mr Bouchard, who is by far Quebec's most popular politician, was the driving force behind the separatists' strong showing in the referendum.

The referendum question,

linking independence to a new political and economic "partnership" with Canada, was rejected by a slim 50.4-49.6 margin. The separatists have vowed to keep the independence issue alive.

Mr Ghislain Dufour, head of the Patronat, Quebec's leading employer group, said that "business found it difficult to talk to Mr Parizeau, but could quickly build a rapport if Mr Bouchard becomes premier." He added that, unlike Mr Parizeau, "Mr Bouchard was not negative towards Bombardier [the Montreal-based aerospace group] and other Quebec-based companies in the referendum campaign."

Quebec firms have joined the overall rally in Canadian financial markets since the referendum. The premium on Quebec long-term issues has narrowed in the past two days from 0.90 to 0.72 basis points above similar Canadian government issues. However, the spread remains wider than all other Canadian provinces, except Newfoundland.

One New York-based fund manager predicted yesterday markets would focus mainly on

Canada's economy in coming months. But "there is still a pretty big risk in Quebec," he said. Quebec's fiscal problems are among the most serious of Canada's 10 provinces. Its debt equals over 56 per cent of gross domestic product, compared to 36 per cent for neighbouring Ontario.

However, there is no urgency for Quebec to test international capital markets. The province, as well as Hydro-Québec, the public-sector power utility, covered their entire 1995 borrowing needs prior to the referendum.

According to Toronto-based Dominion Bond Rating Service, Quebec has sufficient resources to delay further borrowing for six months.

Mr Pierre Cleroux, Quebec vice-president of the Canadian Federation of Independent Business, cautioned that Mr Parizeau's departure might delay some important economic decisions and that uncertainty would continue with another referendum possible in two or three years.

Mr Patrice Simard, president of the Montreal Chambre de Commerce, said the govern-



Quebec premier Jacques Parizeau announces his resignation as his wife Lisette looks on

ernment had been a factor for 25 years. Uncertainty would continue, he said, but there was less reason now for any exodus of companies or English-speaking people.

Dozens of multinational companies, mainly in aerospace,

pharmaceuticals and computer software, have operations in the Montreal area.

Business leaders said that new direct investment in Quebec might require generous government incentives until the political climate improved.

One test case could be Volvo, the Swedish vehicle manufacturer. Volvo bought a Quebec City bus builder earlier this year, and has looked over a mothballed car assembly plant near Montreal, owned by South Korea's Hyundai.

## Fresh doubts raised over US economy

By Michael Prowse in Washington

Figures released yesterday raised fresh doubts about the strength of the US economic expansion.

Purchasing managers reported an unexpected decline in their index of manufacturing activity to 46.8 per cent, against 48.3 per cent in September, well below the 50 per cent threshold for expansion in the sector.

Separately, the Federal Reserve published an assessment of lacklustre growth prospects in its latest "beige book" on regional economic trends. It said retail sales were soft and below expectations in many areas last month.

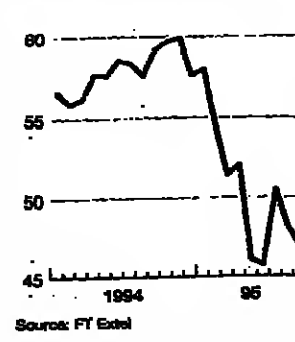
The official index of leading indicators - designed to provide advance warning of recessions - was also reported down 0.1 per cent in September.

On Wall Street, bond prices rose sharply in early trading as the weak figures were seen as increasing the likelihood that the Fed will cut interest rates later this year - provided Congress and the White House reach agreement on balancing the federal budget. By early afternoon the benchmark 30-year bond was up 1/4 at 107 1/2 to yield 6.28 per cent.

The purchasing index has moved up and down erratically since the spring, but has been generally much weaker than last year. The index has been below the 50 per cent threshold for growth in five of the past six months, reflecting manufacturers' efforts to curb production and reduce excessive levels of inventories.

The beige book indicated the economy was still growing at a "moderate" pace, but probably slower than during the summer. Consumer spending reports indicated a "possible slowing of demand." However, it noted an offsetting pick up in exports and demand for

US Purchasing Managers' Index



Source: FT Index

some business equipment.

The drop in the leading index reflected falls in commodity prices, consumer sentiment, and higher claims for unemployment insurance. It followed a revised increase of 0.1 per cent in August and a decline of 0.2 per cent in July.

Yesterday's data follow a series of mostly encouraging signals on the economy. Last week gross domestic product data showed economic growth at an annualised rate of 4.2 per cent in the third quarter, much higher than expected. Orders for durable goods were also robust, rising 3 per cent between August and September.

However, the weak purchasing index is likely to reinforce speculation that third quarter growth overstated the economy's strength. "The Fed should be easing now because the economy will look a lot weaker in six months," said Mr Edward Yardeni, chief economist at C.J. Lawrence, a New York broker.

Many economists believe economic growth will slow to an annualised rate of 3.5 per cent in the fourth quarter, but most still regard recession as a remote prospect.

## Falklands eyes air connection with Santiago

By David Pilling in Port Stanley, Falkland Islands

The Falkland Islands should soon be connected by a twice-weekly flight to Santiago, Chile's capital, ending 13 years of near-total dependence on Britain's Royal Air Force for links with the outside world.

The Santiago flight, to be operated by DAP, the Chilean airline, is expected to be in service by December and will mark an "economic leap forward" for the islands, according to Mr Mike Summers, general manager of the Falkland Islands Development Corporation. Final negotiations are under way between DAP and Carib, a Barbados-based airline, for the lease of a BAe 146 aircraft.

The twice-weekly flight, which will connect with a British Airways scheduled service to London, will give islanders their first convenient link to the South American mainland since the 1982 Falklands war.

Since then, islanders travelling by air have had only two options - a no-frills RAF flight to Brize Norton, Oxfordshire, or DAP's Twin Otter service to Punta Arenas in southern Chile. The latter has not effectively broken the Falklands' isolation from the mainland.

carrying fewer than 16 passengers and flying only twice a month in the winter.

DAP plans to carry up to 86 passengers on its new Chilean service. The return fare to Santiago, via Punta Arenas, would be \$800, according to Mr Alex Pivovitch, managing partner at the airline. FIDC plans to support the launch of the new route by buying \$180,000-worth of seats.

As well as serving outbound Falklanders, the new flight would boost fledgling tourism by encouraging visitors to South America to add the Falklands to their itinerary, said Mr Summers. Last year, fewer than 200 tourists visited the islands, apart from cruise passengers. The service would also encourage business people to visit, given the recent launch of a Falklands oil licensing round.

The new service would also help to develop the fishing industry, the mainstay of the economy, by encouraging boats to stay on in the Falklands during the off-season.

Some Falklanders fear that if a convenient route to Chile is established, the RAF might cut its passenger service to the UK. "We would fight very hard for that not to happen," said Mr Summers.

## Income is soaring but public investment lags behind

## Boom times for California

By Christopher Parkes in Los Angeles

California is trapped in a budgetary gridlock which endangers educational standards and other infrastructure essentials, even though the economy is creating more jobs, income and households than the rest of the US, a leading regional forecasting unit has warned.

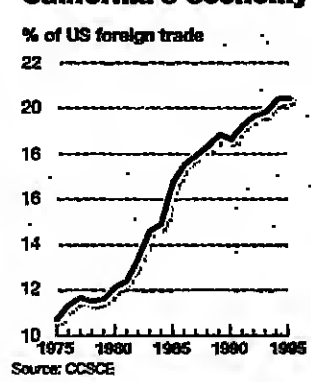
Most of the jobs lost in the 1990-93 slump had been regained by the end of September this year, and personal incomes rose more than 7 per cent in the six months to the end of June, according to the latest annual review from the Center for Continuing Study of the California Economy.

The state is at the starting point of "a strong and long-lasting recovery", fed by record venture capital investment, and growth in trade and technology, tourism and entertainment, the report says. Even older industries such as agriculture and clothing are taking on new workers.

However, the public investment in schools, roads and other facilities necessary to support a thriving economy is lagging badly behind.

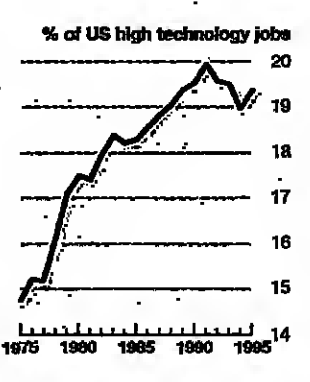
California ranks 42nd among US states in terms of elementary school spending per child, and 49th in terms of

California's economy



Source: CSCE

% of US high technology jobs



Source: CSCE

numbers of schoolroom computers per child. Class sizes are the biggest in the country, according to Mr Stephen Levy, CSCE director and main author of the report.

Mr Levy concludes that taxation reform - notably removing the "cap" from property taxes and allowing them to grow in line with the economy - is necessary "if California is ever to develop a long-term budget strategy that can adequately fund public investment in support of economic growth."

Laws limiting property tax growth strongly favour retail developments while militating against housing and industrial developments, he says. Even so, the centre, which specialises in long-range forecasting for private

businesses and public utilities, calculates the number of jobs in the state will expand almost 22 per cent to more than 17m in the next 10 years compared with 13 per cent growth in the US overall.

Income will soar 40 per cent compared with 27 per cent, the population will increase 17 per cent against 10 per cent, and the number of households will grow 20 per cent or double the national rate.

Recent improvements have included an increase of 40,000 in the numbers employed by the film industry since the start of 1994, 60,000 new positions in engineering and computer services, and a similar total added by the trucking and wholesale trades, thanks partly to an exports boom.

Amusement and hotel industries have taken on 35,000 new employees in the same period as domestic and international visitor numbers have recovered from recession and the deterrent impact of the 1994 earthquake.

As a result, an estimated 250,000 to 300,000 jobs will be created this year, with similar growth expected in each of the coming two years.

A 7.2 per cent rise in total personal incomes in the first half of this year, taken with a 1.8 per cent increase in consumer prices, has produced the first substantial boost to real spending power since 1990. Incomes are expected to rise between 5.5 per cent and 6.5 per cent in 1996 and 1997.

The volume of trade passing through California ports is expected to grow 20 per cent to around \$290bn this year, despite the economic crisis in neighbouring Mexico.

Exports of products from California companies were 19 per cent up at the end of June, while shipments of technology products to foreign markets are forecast to expand 23 per cent for the full year.

For the future, the centre says high-tech industry will grow three times as fast as other manufacturing sectors in the coming decade, while entertainment will expand twice as fast as the US economy overall.

## ITC faces hefty cut in staffing

By Nancy Dunne in Washington

The US International Trade Commission, considered by many foreign companies as the last bulwark against US protectionism, has become one of the most prominent candidates for government "down-sizing".

Last Friday the commission issued notices to 128 employees, almost one-third of its staff, that they will lose their jobs unless the House and Senate budget negotiators restore funding cut from its budget.

The House appropriations bill gives the agency \$42.5m for its operations, little changed

from last year, but the Senate bill cuts expenditure to \$34m. The staff cuts were worked out averaging the two bills.

US "fair trade" law has a two-track process. The US Commerce Department decides the extent to which a product has been sold at "less than fair market value" or subsidised by foreign governments. The ITC rules whether or not US industries have been injured by imports.

Unless petitioners seeking compensatory duties on foreign products prove they have been injured by imports, their cases are thrown out.

Many trade lawyers - particularly those representing for-

eign companies - consider Commerce's procedures more susceptible to political influence than the ITC's. "Anyone who works for a European steel mill or owns stock in a European steel company knows the importance of the ITC," said Mr Mike Stein, former ITC general counsel.

In 1993 the ITC threw out about half of the cases brought by the steel industry when US quotas expired.

Many trade lawyers say the pruned ITC may find it impossible to produce high-quality analyses which provide the base for opinions of the six commissioners. The Senate appropriations committee,

unsympathetic to that argument, used the savings to provide continued legal aid funding for the poor.

A senior Democratic aide said some in Congress felt that the ITC was failing to abide by congressional wishes in enforcing US trade laws. Too many cases were being thrown out.

Aside from weighing in on dumping and countervailing duty cases, the ITC produces a wide range of industry studies. According to Mr Stein, the ITC cuts could be "really disastrous" because there is less fat in the budget than at most agencies. Ten years ago the ITC had 425 staff members; it now has 419.

## Colombia points to drug role

Colombia, faced with deteriorating ties with the US, reminded Washington yesterday that it was a key partner in the war against drugs. Reuter reports from Bogotá.

"In the fight against drug trafficking, the US needs Colombia and Colombia needs the US," Mr Rodrigo Pardo, foreign minister, said.

He spoke in an interview from Washington where he was to meet US lawmakers and senior officials from the State Department in what he described earlier this week as a bid to "normalise" Colombia's thorny relations with its leading trading partner.

Bilateral ties, already strained by charges that President Ernesto Samper's 1994 election campaign was partly funded by the Cali drug cartel, have soured further in recent weeks following a series of public swipes at the US by Mr Horacio Serpa, the interior minister.

These include Mr Serpa's suggestion that US drug agents may have had a hand in a recent assassination or kidnapping attempt against Mr Samper's lawyer, and a congressman's public airing of what he said were wiretapped telephone conversations of the top US Drug Enforcement Administration official in Bogotá.

## Ford to contest damages

Ford Motor said it planned to appeal against a \$62.5m jury award to two Indiana sisters who allege their injuries in a 1991 driving accident were caused by a design fault in a 1988-model Bronco II that makes it prone to roll over.

"We're outraged at this verdict and we think it's a perfect example of why this country needs tort reform," said Ford.

On Monday evening a jury in Indianapolis awarded Vicki Ammerman and Alana Cuskaden \$23m each in punitive damages. They also won \$4.1m compensatory damages.

Ford said it was the second time a jury had held the company liable for injuries allegedly caused by the Bronco II design. Earlier this year a Houston jury awarded a plaintiff \$6.5m in compensatory and punitive damages in a decision Ford is also appealing against.

In all six previous Bronco II lawsuits tried in front of juries, no design defect was found. Ford said. Safety advocates allege the Bronco II has a short wheel base and high centre of gravity that makes it prone to roll over during emergency manoeuvres. Ford says the vehicles are safe when driven properly.

The National Highway Traffic Safety Administration closed an inquiry into the allegations without taking action.

## Wage, price and tax accord seen as helpful, but there is still much economic pain to come

## Mexico's three-way pact wins some relief

By Daniel Dombey and Stephen Fidler

The wage, price and tax agreement reached between the Mexican government and trade union and business leaders at the weekend provided short-lived respite for Mexico's financial markets after last week's jitters.

Agreements between these groups were regular events from 1987 until negotiations broke down earlier this year in the aftermath of the devaluation panic last December. Important changes in economic policy - wage and price increases, shifts in exchange rate policy, government economic projections - were usually announced as part of such agreements, known as *pactos*.

While the latest accord, known as the Alliance for Economic Recovery, looks much the same, the appearance is deceptive.

The old *pacto* was integral to the heterodox approach to economic pol-

icy of the previous administration of President Carlos Salinas, which combined orthodox fiscal and monetary measures with agreed measures to limit price and wage rises.

Since the devaluation, the government of President Ernesto Zedillo has had to abandon the approach. This is in large part because the government lost the hinge of the previous accord: the pre-set maximum rate of depreciation of the peso. At the weekend, the government only reaffirmed that a floating peso would be maintained, and cited no targets.

"This is not a *pacto*," said Mr Isaac Katz, head of economics at Mexico's Technological Institute. "There are no serious commitments from the parties other than the government. It is instead a bundle of fiscal measures to reduce the costs of both labour and capital."

The accord - which is aimed at achieving a 20 per cent inflation rate

and 3 per cent growth rate next year - provides all three sectors with some benefits.

Labour gets a 21 per cent increase in minimum wage - to which many other salaries traditionally are tied - in two steps, December and April, higher grants to the unemployed and further help for the temporary jobs programme.

Business wins tax incentives, including commitments to suspend asset taxes in 1996 for small and medium businesses, and to provide tax waivers on investment above 1995 levels and tax credits for companies that take on new workers.

The government's commitment to fiscal stability will be helped by staggered increases in prices for petroleum and electricity, both sold by state monopolies. The government committed itself to a 4.75 per cent real reduction in current spending next year, but also said increased economic

activity should yield greater tax receipts. All this should provide room for increased social and investment spending.

Some economists worried about the reliance on growth to increase tax receipts. Others said the pact did not represent a shift to a more expansionary fiscal policy. "Such a shift," said Mr Peter West of West Merchant Bank in London, "would have shattered confidence in the foreign exchange or financial markets."

Mr Guillermo Ortiz, the finance minister, said the measures would mean a fiscal relaxation next year of 0.5 per cent of gross domestic product, not enough to contradict the government's commitment to a balanced budget.

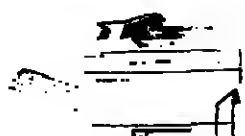
He said the recovery would be led by exports, which should provide a 1.4 percentage point contribution to growth next year. The government expects an increase in merchandise

exports of 12 per cent in volume terms and 18 per cent in dollar terms - which implies the government's assumptions include a strengthening of the peso.

A 4.7 per cent increase in private investment should yield 0.6 percentage points of growth and an expansion of private consumption should generate 1 point of growth. Public sector investment will remain unchanged in real terms.

Given the sharp falls in consumption and investment this year, and a competitive peso to help exports, a number of economists said the growth and inflation targets looked modest and achievable. They stressed, however, that there would be more economic pain to come, perhaps explaining why the relief of financial markets was transitory. "It will not be until well into 1996 that the upturn in economic activity will become apparent," said Mr West.

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## Tory MPs may rebel in 'sleaze' row

By John Kampfner,  
Westminster Correspondent



Prime minister John Major threw his full weight yesterday behind his party's rejection of disclosure of MPs' outside earnings, raising the potential risks to Conservative fortunes ahead of Monday's knife-edge vote aimed at stamping out "sleaze".

As the report of the House of Commons committee on standards in public life was published, several backbenchers in the governing Conservative party expressed misgivings about the government's handling of the issue and suggested they might vote with the opposition.

Labour began a campaign to put pressure on Conservative MPs in marginal seats, collating and passing on to local media their public statements on reform of parliamentary practice.

Next week's debate is nominally a "free vote", but business managers are preparing for what will be one of the most highly charged political occasions of recent years.

Mr Tony Blair, the Labour leader, accused Mr John Major of "caving in". "This shameful episode exposes the Conservative party for what it is - not a political party running the country in the national interest but a vested interest," he said.

long as those activities are lodged in the register of members' interests.

Some MPs acknowledged the definitions presented loopholes, to be exploited when they draw up new contracts with clients.

Mr Newton said the changes were the most significant for a generation. The ban on advocacy, he said, obviated the need for MPs to disclose their earnings.

A spokesman for Mr Major said: "He welcomes the report and will vote for a resolution which implements it. If there is an amendment contrary to the report, he will vote against it."

Tory MPs were divided into three camps. Some denounced the whole Nolan process as invidious; others said the select committee had struck the right balance.

However at least four, including Mr John Biffen, a former leader of the House, indicated they may support the Labour amendment calling for MPs to disclose their fees in bands of thousands of pounds.

Sir Teddy Taylor, one of the Euro-rebels of last year, predicted more defections. He told colleagues: "If you don't want to tell, don't stand for parliament."

With a majority of six, ministers are hoping enough Northern Irish MPs will fail to attend to offset a rebellion.

The Lords also began debating reforms to their procedures yesterday, including their own ban on advocacy and establishment of a register.

## Companies are helped to avoid EU tax rule

By Jim Kelly,  
Accountancy Correspondent

Customs and Excise is giving detailed advice to UK tour operators on how to avoid the higher value added tax bill they face because of a ruling by the European Court of Justice.

The move, which has been backed by the UK Treasury, contrasts with a string of government anti-avoidance measures designed to stop abuse of the tax system.

The move has been widely welcomed by the travel industry and tax specialists in illustrating an unusually flexible and unbureaucratic approach to tax management.

In what could be the first official scheme of its kind, Customs has devised at least three ways in which smaller tour operators can circumvent paying extra VAT.

Customs has suggested, among other things, that operators adopt agency arrangements for the supply of transport to customers.

As a result many operators may "de-package" their holiday products in order to circumvent the new tax and there are fears this may lead to less protection for consumers.

"It's tax avoidance rather than evasion - they have been very clear about that," said Mrs Sue Ockwell, chief executive of the Association of Independent Tour Operators.

Mrs Ockwell said Customs had been "extraordinarily helpful" in advising tour operators.

But a spokesman denied Customs was giving tax avoidance advice: "We are simply trying to prevent a distortion of competition within the industry. We have had to square the circle. We had to meet the verdict of the court and make sure parts of the trade were not disadvantaged."

At present tour operators within the European Union pay VAT in their own country on gross profit. This means they do not have to reclaim VAT from other EU countries.

UK operators do not pay VAT on all the profit margin as some items, such as international flights, are zero-rated. In 1993 the European Court ruled, in a case involving the German tax system, that such practice was illegal.

As a result the entire profit margin will be liable for tax from January 1.

So-called "in-house" items, however, do not incur tax. Tour operators which own their own aircraft would therefore be at an advantage over smaller ones which have to "buy in" such services.

The UK is unusual within the EU in having operators which own aircraft. Up to 30,000 other operators who buy in flights faced paying extra VAT.

EU probes rail cash, Page 10

## Manufacturers shed jobs in slow output growth

By Graham Bowley,  
Economics Staff

Britain's manufacturers shed more jobs than they created for the first time in more than two years last month, according to the latest survey of purchasing managers.

The purchasing managers' index, which tracks business activity in manufacturing, rose slightly in October but pointed to continued slow growth of factory output.

The survey also revealed a further weakening of upward pressure on prices as demand

for goods continued to decline and companies found it easier to meet that demand. Prices of raw materials and other inputs rose last month at the slowest rate since November 1993.

Economists said the view that inflation was under control and interest rates would be cut in coming months. Mr Kenneth Clarke, chancellor, and Mr Eddie George, governor of the Bank of England, met yesterday for their monthly discussion of interest rate policy.

Few economists thought that Mr Clarke and Mr George

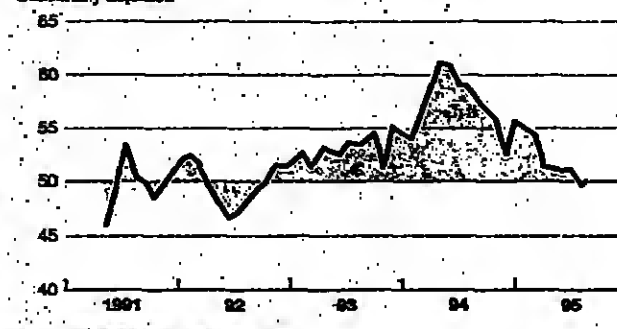
would take a decision to lower base rates from the current 6.75 per cent at the meeting. But a growing number believe that rates could be cut after the November 28 Budget.

Separate figures from the Bank of England meanwhile showed a rebound in consumer borrowing in September, but the increase in borrowing remains in line with figures recorded earlier in the year, suggesting that demand is neither booming nor collapsing.

Britain recorded its biggest underlying monthly trade deficit so far this year in August.

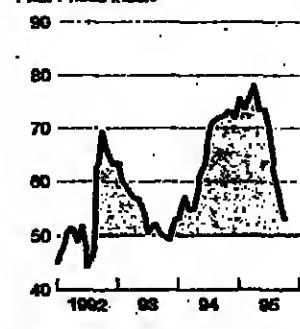
## Inflationary pressures ease as demand slows

Purchasing Managers' Index  
Seasonally adjusted



Source: Goldman Sachs, NTC Research

Producer input prices  
PPI: Prices Index



Source: Central Statistical Office

The headline visible trade gap rose by £120m to £1,255bn, according to the Central Statistical Office. Imports rose by about 2 per cent in August and exports by 1 per cent.

The Labour party's investment view, Page 10

## London Stock Exchange Over-confidence has enabled other bourses to forge ahead

## Several bankers share Mueller strictures

By Norma Cohen,  
Investments Correspondent

Mr Rudolf Mueller, chairman of UBS UK, punctured the myth of the London Stock Exchange's international status, saying it had "missed the boat" on the opportunity to become the central market place for European equities.

Mr Mueller's remarks are probably the most pointed and harshest to come publicly from such an establishment figure. He served on the board of the exchange from 1990 and resigned only this summer - in disappointment, he says, over the exchange's failure to address the European question.

It should have tried to build a co-operative venture for all the European bourses in which London could have had a lead, he said. Instead, London remained overconfident in its existing system while the other bourses stole a march on it.

Criticism of that nature from such a firm as UBS is not to be shrugged off lightly. After all, it ranks first or second in market share in Europe-wide equity trading and sales and its UK equity market making arm has an eight to 10 per cent market share of the London business.

Moreover, UBS has put its money where its mouth is. It was the first foreign firm to seek "remote membership" of the Swedish stock exchange, a status which allows it the benefits of membership while it trades electronically from London. It has applied for

similar status in Amsterdam which is expected to become effective on January 1 when a new European Union directive allowing remote membership amongst member states takes effect.

Still worse, it appears, Mr Mueller may be unique in going public with his criticism, but he is hardly alone in his view. Officials at leading investment banks say privately that Mr Mueller's views about the role of the London exchange accord with their own. At issue is the exchange's SEAIQ international electronic bulletin board where marketmakers in European equities advertise the prices at which they will buy and sell the shares of specific companies.

Last week, NatWest Securities announced it would greatly reduce its usage of SEAIQ 1 in favour of local bourses, saying its clients were no longer getting the best prices on the London exchange's system.

The London Tourist Board expects the number of tourists to the capital to reach 21m by the end of the year from 17.4m in 1993 and said that if growth continued at the same rate, London would need 10,000 extra hotel rooms by 2000.

## Record number of tourists in August

By Scheherazade Daneshkhan,  
Leisure Industries Correspondent

A record 2.67m visitors came to the UK in August, an 11 per cent increase on August last year. They spent £1.47bn (£2.3bn), the highest monthly total on record and 2 per cent up on last August.

The growth was fuelled in part by a 13 per cent increase in visitors from North America. Their numbers are expected by the end of the year to exceed the pre-Gulf war figure of 3.685m in 1990.

Mrs Virginia Bottomley, national heritage secretary, hailed the government's figures as evidence of the success in attracting visitors.

Despite the hot weather this summer, the figures show that the number of UK residents who went abroad in August was virtually unchanged at 5.14m from last August. Spending abroad by UK residents fell slightly to £2,040m from £2,050m in August 1994.

Just over 15.7m visited the UK in the first eight months of the year, 11 per cent on the same period last year and spent £7.5bn, an increase of 12 per cent.

Mrs Bottomley said 90,000 jobs had been created in hotels and restaurants as a result and quoted forecasts of the number of overseas visitors to the UK increasing by 25 per cent over the next decade. But she warned forecasts would only turn into reality if efforts were pooled.

Meanwhile the London Docklands Development Corporation yesterday published a report it commissioned from hotel consultants Pannell Kerr Forster and Knight Frank & Rutley showing that demand for London accommodation could sustain 2,600 new hotel beds in Docklands between now and 2010.

The London Tourist Board expects the number of tourists to the capital to reach 21m by the end of the year from 17.4m in 1993 and said that if growth continued at the same rate, London would need 10,000 extra hotel rooms by 2000.

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Natural gas - affordable, safe and available - is an increasingly popular choice for driving turbines that generate electrical power all over the world. Although it

burns relatively cleanly, combustion does produce nitrogen oxide, implicated in acid rain. Abatement techniques have reduced emissions, but heightened awareness among the industrial nations continues to generate tighter legislative controls and the development of ecologically-sound power plants.

Conventional methods of controlling emissions are costly and dampen efficiency. However, ABB research has now developed a way to burn them off. It is a total solution, reducing pollutants while maintaining efficiency, thus consuming less fossil fuel. ABB has installed its innovative "EV-burner" in the Midland Cogeneration Venture, a joint project to produce power for the Dow Chemical Company and the State of Michigan, USA. At full power load, this plant is now producing emission levels well below the world's most stringent requirements.

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## NEWS: UK

Accountancy Report rejects criticism of 'low-balling' as a means of winning clients

## Top firms cleared in audit pricing row

By Jim Kelly, Accountancy Correspondent

The inquiry into whether 'low-balling' by accountancy firms results in poor audit work has cleared the 'Big Six' as new evidence emerged of fierce price cutting in the UK audit market. An independent report delivered to the profession's main regulator yesterday concluded that there was no evidence that major companies "are unduly affected by competitive pricing..." by the big auditing firms.

defuse for now the row over 'low-balling' - the allegation that bigger firms use audit as a loss leader to win clients and later claw back revenue by increasing the price or getting other lucrative work.

Smaller firms such as Stoy Hayward said that the practice undermined the independence and effectiveness of the auditor. Stoy's lost the audit of the RAC Club to the Big Six firm Price Waterhouse and the subsequent row helped prompt the inquiry.

Small to medium sized firms also complain that the Big

Six's grip on the audit market of the bigger companies is being extended by competitive pricing into new markets amongst smaller audit clients.

The report, presented to the Institute of Chartered Accountants in England and Wales, said that the best protection against bad auditing of listed companies was the threat of litigation. This outweighed "any short term commercial gain".

However, the report did find areas of "very real concern", according to Mrs Elizabeth Llewellyn-Smith, chairman of

the working party and principal of St Hilda's College in Oxford University. There was a perception that work for smaller audit clients was of poor quality. "It is important for the image of the profession that the emphasis is shifted from price to quality," said the report.

The report also uncovered "cut price" promotions to smaller audit clients - including lead-in offers of price cuts of between 40 and 50 per cent. This could only "reduce the image and status of the profession," said the report.

Two separate sets of academic research show that auditors were under extreme pressure on price. JDH Consultants, which provides an annual survey of audit costs, said that of more than 750 leading companies 31 had changed auditor - in the process cutting their aggregate audit bill by 32 per cent.

Separate research into 399 UK listed companies in 1991 found that in the three years after a voluntary change of auditor fees fell by 22 per cent. Four to five years later the reduction was just 9 per cent.

## UK NEWS DIGEST

## EU court investigates rail cash

The European Court of Auditors, a financial watchdog which monitors European Union spending, is investigating payments of nearly £50m (£79m) for feasibility studies into the £20m Channel tunnel rail link between the port of Folkestone and London. The court, which is based in Luxembourg, has been looking since June at EU funds provided for the rail link. Representatives of the court are expected to visit Britain in the next two months, said Mr Peter Skinner, Labour member of the European Parliament for Kent West, who has instigated the review.

Union Railways, the government-owned company which is promoting the project, said it was not aware of any special investigation into the funding. "We are used to having our funds audited and would be happy to co-operate," the company said. Mr Skinner said that a total of almost £50m appeared excessive for feasibility studies. "It is taxpayers' money which is being poured into Union Railways."

Charles Batchelor, Transport Correspondent

trading under the directive than under the current regime. But the directive will also oblige them for the first time to calculate their market risk, unless exempted, on a daily basis and to report this to regulators.

Nicholas Denton, Financial Staff

## Labour party deplores low rate of investment

Mr Gordon Brown, the opposition Labour party's chief spokesman on finance, sought to shift attention away from the possibility of tax cuts in the government's Budget at the end of the month by announcing initiatives designed to promote faster economic growth by increasing investment. He said Conservative party tax cuts would be temporary unless Britain's relatively low economic growth rate could be increased. He called for urgent measures to promote investment, including a doubling of capital allowances, incentives for long-term personal savings, and a two-tier capital gains tax structure designed to promote long-term shareholding.

Launching Labour's annual pre-budget attack on the government's economic policy, Mr Brown accused ministers of presiding over 16 years of economic decline during which UK per capita income had slipped from 13th in the world to 18th. Dismissing government arguments that cuts in public spending hold the key to economic prosperity, he insisted that the UK's fundamental economic problem was investment per capita, which had fallen to 21st in the world.

Kevin Brown, Westminster

## Government courier contract was bungled

Senior government officials admitted that the award of a multi-million pound courier contract was badly bungled causing delays to benefit claimants as packages were late or sent to the wrong address. In 1993 the Benefits Agency re-awarded its courier contract to deliver up to 50,000 parcels between the various departmental offices, to its existing courier, Lynx, at a cost of £3.15m (£5m). However, within two months it was clear that Lynx was falling short of punctuality and accuracy targets and officials then discovered that the contract contained no penalty clause or remedy for the problem.

Lynx then proposed altering its operating methods and the Agency agreed to pay an extra £200,000 to meet the cost of the changes. Even this was not enough and in July a new contract was negotiated, which included bonuses and penalty clauses but at a price 64 per cent higher than on the original winning tender.

Robert Strimling, Westminster

## Switch in spending blamed for loss of clothing jobs

The popularity of the National Lottery and reduced consumer spending were blamed for a decision to shed nearly 300 industrial jobs in one of Britain's unemployment black-spots. Baird Menswear Brands, a subsidiary of William Baird, is to shed 280 jobs at its factory at Harlepool in north-east England when it closes its production line for suit jackets and reduces its trouser making capacity. BMB's chief executive, Mr Peter Lucas, partly blamed the lottery for the sales downturn: "Disposable income is coming out of the economy. There's been no new money creation since the lottery arrived, so all that money is coming from somewhere." Chris Tighe, Newcastle-upon-Tyne

## Many banks 'fail to satisfy Brussels trading rules'

Many UK banks are in no position to satisfy new European Union rules on the capital they need for securities trading, says a report from Touche Ross, the accountancy firm. About 30 per cent of UK banks surveyed did not expect to be ready to comply with the EU's capital adequacy directive by the time it comes into force next year. The directive is designed to harmonise standards for banks' capital bases across the EU and to reflect their deepening involvement in the securities markets. UK banks are expected to need less capital for

## Profession is caught in net cast by Names

By Jim Kelly, Accountancy Correspondent

Every senior partner of a big accountancy firm eventually suffers trial by fire. Mr Ian Brindle at Price Waterhouse had been in the job four days when Bank of Credit and Commerce International, the firm's audit client, shut down. Mr Nick Land at Ernst & Young has had to wait a little longer.

A judge decided in London on Tuesday that Ernst & Whinney, auditors to the Lloyd's syndicate Merrett 418, had been negligent in allowing underwriters to close two years of accounts in the mid 1990s. The Names who lost their money now seek £200m (£472m) compensation. Ernst & Young, successors to Ernst & Whinney, must face part of the suit.

Mr Land, who was appointed this year, responded in a way which may become typical of the new generation which has moved to the top of the "Big Six" accountancy firms in recent years. He came out fighting in the media and went on television to argue his case.

While Mr Land's efforts are directed at minimising the damages to his firm's resources - and its insurance cover - he was in fact acting for the whole profession. If Ernst & Whinney can be judged to be negligent in auditing a Lloyd's syndicate, several other firms will be preparing to fight similar allegations.

Which other firms? The market for auditing Lloyd's syndi-

Lloyd's is looking for "expressions of interest" in its Lloyd's of London Press publishing subsidiary as part of the revised recovery plan unveiled on Tuesday, Ralph Atkins writes. The announcement of the possible sale of the

## LLOYD'S

LLOYD'S OF LONDON operation - which publishes Lloyd's List, the shipping and insurance newspaper - came as the market revised its time-

table is dominated by three names: Ernst & Young, Neville Russell and Littlejohn Frazer. But several other firms will be watching the issue closely because of a very small exposure to the risks. They are unlikely to face a serious legal action, but might want to contribute to a settlement that "cleared the decks". Certainly Arthur Andersen, Coopers & Lybrand and KPMG had a small interest in the market.

So what happens next? The current case against Ernst & Young and Merrett can be dealt with by the courts, presumably to be followed eventually by a string of other cases. Mr Land believes that any "reasonable" assessment of the auditors' negligence - based on the details of this week's judgment - would result in a payment of less than £20m on Merrett. All sides would recognise that this sum is too small to

justify the legal costs necessary to extract it.

Rising costs are a strong incentive to all to settle out of court. So is time. Ernst & Young will appeal. Meanwhile there will be moves to get a judgment on the quantum - the degree of negligence to be attributed to the various parties. Then the rest of the cases will have to file through the courts.

The spectre of protracted court actions over auditor liability baunts the profession anyway. Adding Lloyd's to the nightmare at this stage would at least add power to the campaign waged by the Big Six to get the government to do something about the law of joint and several liability.

The burden of such liability is that the auditor may face paying the entire weight of the losses even if it is judged to have been negligent to a small

company Lloyd's is setting up to take responsibility for liabilities outstanding on old insurance policies.

A vote on the recovery plan is expected by the end of March. The mechanism used to pool Names has not been decided. It is also unclear whether Lloyd's will proceed with the Equitas plan without agreement on the settlement offer. Also before the end of March, Lloyd's will hold a vote on proposals to impose a levy on those who have been underwriting since 1993.

extent compared with others. This means, in theory, that it can take just one proven case to devastate the resources of a leading firm.

In the case of Lloyd's, the accountants are not the only people with the resources to meet a claim. They may be seen to have "deep pockets", but there are other pockets around. Nevertheless, it is freely admitted by litigating Names that dragging auditors into the net is a coup. A pot of money, previously beyond their reach, is now within their grasp.

The uncertainties, cost and time which a series of court actions would take mean that it is much more likely the firms involved will eventually contribute to the overall settlement being brokered by Lloyd's. This is currently valued at £2.8bn for Names. As an opening bid, the sum of £100m

from the auditors has been floated.

The sum extracted from auditors will therefore go up or down depending on the pressures which can be brought to the negotiating tables.

There is no doubt that Merrett was an unusual case. The judge did find against Ernst & Whinney "seriously". It was Merrett's underwriting of the business which eventually led to the losses. Ernst & Whinney were "seriously misled" over aspects of the business. The Names still have to prove that they have not run out of time in bringing the action to court. But Ernst & Whinney were found negligent. Hence the jubilation of the Merrett Names.

So Ernst & Young will fight - hoping for victory - but also to contain the damage. It is the leading player in the syndicate auditor market by a clear margin. But it is not alone, and a judgment on which other firms may be drawn into a settlement is a crucial one in trying to assess the impact on each.

The judgment in Merrett does not mean that all the other firms have been caught in the net. Each case is different and the principles underlying an action over Gooda Walker or Feltrim, for example, are quite different from those in Merrett. Also, none of the firms has admitted negligence. But auditors are now likely to play a significant part in the overall Lloyd's settlement.



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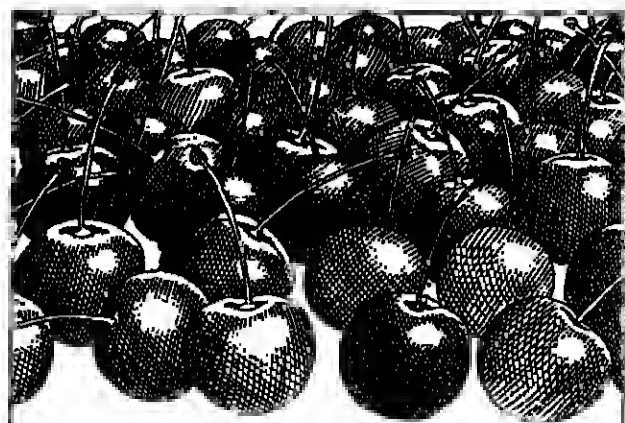
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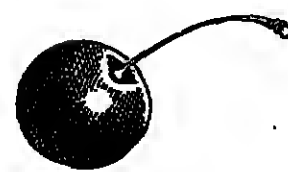
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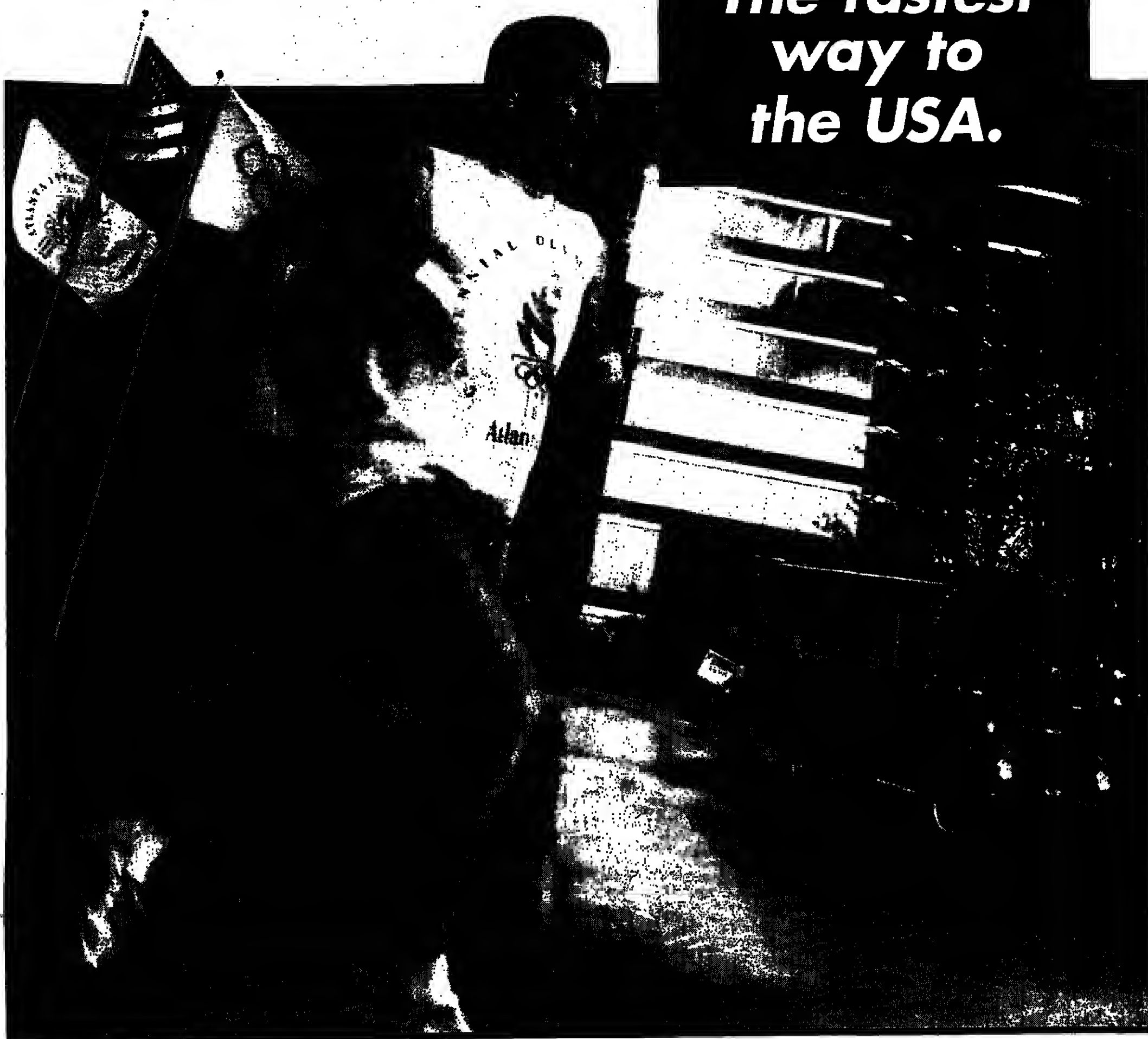


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## TECHNOLOGY

## Worth Watching - Vanessa Houlder



## Gene found in suntan link

A recently discovered gene could play a role in determining people's susceptibility to skin cancer, according to a report in this week's *Nature Genetics*.

The ability to tan is related to the relative proportions of eumelanin, a brownish-black pigment that helps the skin tan, and pheomelanin, a reddish pigment that does not give the same protection.

The Medical Research Council has funded research at Newcastle University and the Human Genetics Unit in Edinburgh into what regulates the relative proportions of these two skin pigments. They found that people who do not tan well produce insufficient amounts of eumelanin because they are unresponsive to the melanocyte-stimulating hormone.

The unresponsiveness was associated with changes in the MSH receptor gene. More work is planned to examine the frequency of change in the receptor gene in different populations.

Medical Research Council: UK, tel (0)171 636 5422; fax (0)171 436 6179.

## Cavities spotted on ultrasound

An ultrasonic method of diagnosing cavities in teeth, which is radiation-free and more accurate than existing methods, has been devised by the Fraunhofer Institute for Biomedical Engineering in Stuttgart.

The technique depends on the ability of ultrasonic waves to alter their diffusion velocity according to the hardness of the material. The waves' reflections on the outer surfaces of the tooth are captured by an ultrasonic transducer and converted into a visual display on the monitor. Fraunhofer Institute for

Biomedical Engineering: Germany, tel 639490102; fax 639490400.

## Car assembly without welding

A pioneering assembly technique that uses adhesive bonding and mechanical fasteners in place of welding has allowed the weight of a recently launched aluminium car to be cut by 30 per cent.

The Lotus Elise has been made with thinner than average walls because there is no need for extra metal to compensate for the stress inflicted by the welding process. Hydro Aluminium Automotive Structures, which developed the system with Lotus Engineering, believes that the approach could be applicable to high-volume production.

Hydro Aluminium Automotive Structures: Denmark tel 74726666; fax 74726677.

## Getting closer to bacteria secrets

An indication of how bacteria manage to evade the host immune system has emerged from an investigation of the atomic structure of pilin, a protein that makes up the finger-like structures used by bacteria to attach themselves to cells.

In a report published in today's *Nature*, the Scripps Research Institute in California showed that the pilin from the bacteria that cause gonorrhoea were held together at a relatively small number of key points, allowing variation elsewhere. The researchers believe that the increased understanding of the pilin should help in the design of drugs and vaccines.

Scripps Research Institute: US, tel 619 737 2353; fax 619 554 6880.

## Monthly Internet updates on Encarta

The 1996 edition of Microsoft's Encarta, the CD-Rom encyclopaedia which incorporates moving pictures, text, graphics and sound, has an "online" feature that will provide monthly updates from the Internet.

Users are able to download about 35 articles and several photographs each month on to their computer hard drives. These are automatically integrated with the existing CD content.

Microsoft: UK tel (0)1734 270001; fax (0)1734 270002.

On the outskirts of Tokyo is Chiba City, home to Makuhari, a high-technology centre where 30,000 people work.

Its buildings include hotels and a conference hall and exhibition centre. A number of companies also have buildings in Makuhari including BMW, Canon, Fujitsu, Seiko, IBM, the national telephone company NTT and the electronics giant Sharp. The latter has sited one of its research and development centres there, in an intelligent building that uses smart technology systems for controlling lighting, communications, air conditioning, security and other facilities.

The Sharp Makuhari building is built on reclaimed land and was completed in July 1992 at a cost of ¥36bn (£220m). Around 700 people work there with engineers accounting for 60 per cent of the personnel. The building is 10m high and has 21 floors. "To show that it is a building designed for the 21st century", says Akira Mitani, Sharp's group general manager of multimedia systems.

At Makuhari, Sharp is researching future multimedia devices such as television set-top boxes that will deliver hundreds of digital channels into the home, three-dimensional television displays and virtual reality systems.

Makuhari is also using a variety of sophisticated technologies for many of its day-to-day activities. One of these is security. The car park has a computer-controlled management system which uses image processing technology to control access. The licence plate number of every Sharp employee's car is captured by a video camera, digitised and stored in a computer database. When a car is driven into the car park its licence plate is scanned and compared with the numbers held in the database.

Everyone working at Makuhari wears a smart badge which gives them access into and around the building. Magnetic sensors are located at main entrance points and when a person approaches within two metres, a recognition code is transmitted from the badge to the sensor. If it recognises the code, the door opens. Some companies, such as Olivetti, are using active badge systems which allow a computer-based system to track down an employee's whereabouts in a building but Mitani says there are no plans to use a similar system in Makuhari.

Image processing technology is also used in the staff cafeteria which has an automatic till operator. The till dispenses with the need for cash and a human operator. An image of every food item sold in the cafeteria is stored in a computer database along with details of its price and calorific value. Employees



The Makuhari building's (inset) staff cafeteria has an automatic till which calculates the content, cost and calorie value of meals.

## Smart building looks Sharp

The electronics giant's R&D centre in Tokyo is designed to take it into the 21st century, writes George Cole

place their tray on the till and the tray's contents are scanned and compared with images held in the database. The till then calculates the content, cost and calorie value of the meal and this information is displayed on a small screen. The employee then inserts a swipe card into a special reader and the cost of the meal is automatically debited to their account.

Each lift in the Makuhari building has an 8.6in LCD monitor which provides employees with a variety of information such as news, weather reports and company updates. New technology has even found its way into the building's toilets which have heated seats, the temperature of which can be controlled by a panel of buttons at the side of the toilet seat.

The Makuhari building's life support systems, such as the humidity and temperature, are controlled by a supercomputer which monitors the air and automatically makes adjustments for optimum working conditions. Earthquakes are a constant hazard in Japan and Makuhari's disaster prevention system uses a television surveillance system which sounds an alarm if any unnatural movement is detected.

Lighting is provided by solar panels on the top of the building and the air conditioning system uses recycled sewage water as its energy source. The waste water is processed inside the Makuhari building and at a local sewage plant. The water's temperature ranges from 7°C to 47°C and runs through underground pipes.

A number of rooms have special multimedia presentation systems which allow small groups of people to sit in a circle and operate a bank of keyboards. Presentations can also be captured on video and distributed. The building has a high-speed computer network, ISDN digital telephone lines and video conferencing rooms which allow international teleconferencing. Every work desk also has its own personal computer. However, there is currently no desktop video conferencing system which would enable employees to see and talk to each other on their personal computer monitor. "It is something we are considering," says Mitani.

Many Japanese electronics companies like to talk about offering technology with a human face. Sharp is no exception. Employees in the Makuhari building appear to be happy working in this high-tech environment and during the design stage it was decided to put in recreational areas. Members of the public can visit a high-technology hall to see and use future technology, for example, high definition, flat-screen televisions. The hall is popular with school parties - around 130,000 people have visited it since it opened three years ago.

The potential to develop smart buildings that replace most if not all human operators with robots or computers exists but Sharp argues that a balance has to be struck. The smiling face of the till operator in the staff canteen may have been replaced by a smart computer but you will still find real people sitting behind the Makuhari building's reception desk.

## Drugs search patent

Drugs company intellectual property lawyers are this week studying a patent granted to a small US company on Tuesday that may give it control over much of "combinatorial chemistry", an important new technique for automating drug research.

This is likely to principle to affect most of the world's top drugs companies, which are looking to the technique to increase their chances of finding a blockbuster drug.

The company, 3-Dimensional Pharmaceuticals, of Pennsylvania, claims that the patent is broad enough also to affect companies in the chemicals industry seeking new fragrances or pesticides.

The patent covers the mechanism by which the computerised testing of potential drugs is fed back to the system of creating new molecules.

In combinatorial chemistry, thousands or even millions of new molecules are generated, each slightly different from its predecessor. Each molecule is screened by chemical testing and the results can be fed back to the molecule generating stage. 3-Dimensional has a patent over the whole loop provided it uses computers.

Raymond Salemme, 3-Dimensional's chief executive, says there may be legal battles ahead with companies that have invested in their own automated combinatorial chemistry.

He plans to issue some licences to top pharmaceutical companies, probably based on a fee for usage and a small royalty on any drugs produced.

There are precedents, the best known of which is the Cohen and Boyer genetic engineering patent which earns substantial fees for Stanford University and University of California at San Francisco.

If 3-Dimensional wins even a fraction of what the Cohen and Boyer patent earns, it is likely to become a much bigger company without having to go through the risky process of trying to invent its own drugs.

Daniel Green

Retrouvons-nous dans L'EXPRESS

مكتبة من الاعمال



## ARTS

Cinema/Nigel Andrews

## Dive to death or glory

CRIMSON TIDE  
Tony ScottFRENCH KISS  
Lawrence KasdanJADE  
William FriedkinFARINELLI  
Gerard Corbiau

There should be prizes in Hollywood for creative delirium beyond the call of duty. *Crimson Tide* could have been a routine submarine yarn, "bloop-bloop"ing through the deep with bits of *The Caine Mutiny* and *The Bedford Incident* barnacled to its side. Instead it is a two-hour undersea fireworks display. The pyrotechnics - visual, aural, linguistic, histrionic - are provided by director Tony Scott, co-scenarist Quentin Tarantino, lead actors Gene Hackman and Denzel Washington.

H and W play the jingoistic captain and dissenting second-in-command of a nuclear sub thrown into confusion when an imperfectly received Pentagon message seems to order the bombing of Moscow. Hackman says "Nuke". Washington says "Don't nuke". The crew stands by as battle commences for command of vessel and nuclear button.

Most movies carrying a thousand feet of water on their shoulders show it. But Britain's Tony Scott shrugs blithely at the burden like a cinematic Atlas. This is the man who brought filtered visuals and baroque cutting to such testosterone operas as *Top Gun*, *Reservoir* and the Tarantino-written *True Romance*. Here his first witty touch is to get the water over with before we enter the submarine.

Rainy lightplay animates the two stars' faces as they jockey for moral ascendancy in a beautifully acted opening scene. More rain sheets down, plus a rhythmic shower of welding sparks, as Hackman delivers his dockside morale-boosting speech to the crew. After that, the submarine interior is more like Valhalla

during a night: hot, raking lights and sizzling colours, matching the high-wrought emotions of the screenplay.

Much of this is pantomime, of course, but apt for the P.C. age. Denzel Washington, being young, black and located, must be the voice of illal reason even when shouting at a captain to yield command. Gene Hackman, smoking stogies, freely warring his Jack Russell terrier and literally exercising a *droit de seigneur* boorishness, must be the old-school martinet with the face of a fished prune.

No one - no one - must question any of this. "We're here to preserve democracy, not to practise it!" he barks, the best tradition of radical/reactive Hollywood action ethics. But eviguns-on-sea sheriffs can go too far on the master and chief routines, taking turns to clap each other in front, while the director turns the heraldic beat on his colour bars: red for Hackman, red moating with pacific green for Washington, paler green for the queasy moat sailor (Viggo Mortensen) who leads the key, literally, to Armageddon. Finally the film beats to *staze* or rage before diving into neat witty resolution.

We could call *Crimson Tide* a hokum with guts. Scott's style is so designer-apocalyptic that it legitimises even thouches of portentiousness in the music. "For those in peril on the sea" - full choir - accompanies a submarine's climactic dive to death-or-glory 2,000 feet. And bits of Wagner's *Siegfried* are woven, with seamless invocation of grandeur to composer Hans Zimmer's main theme.

In a humbler plot of the Hollywood imagination, *French Kiss* and *Jade* compete for camp. *Jade* calls itself an "erotic thriller", but you should check your rights under the Trade Descriptions Act. The cast contains one captrally vampy heroine (Linda Fiorentino), two boring males (David Caruso, Chazz Palminteri) and a sea of *outré* murders (Hayling, illings) that could only have been done by Joe *Basic Instinct* Eszterha. Director William Friedkin once met *The French Connection*. Here, at the ornate sets stuffed with telephic decadence,

he behaves like a man lost in the duty-free area of Hell. *French Kiss* is a "romantic comedy", and again check on your T.D.A. rights. It brings Meg Ryan to Paris, where she miraculously falls to run into Billy Crystal and Debra Winger making the same movie under another title.

That was *Forget Paris*. But if only we could. Once more, under Lawrence (Body Heat) Kasdan's direction, we camera-waltz around the Eiffel Tower, press the accordion button on the Moog Synthesizer and meet the long-elusive ideal partner.

In this case, he is French-accented Kevin Kline, wearing a monstache, a high-maintenance stubble and a face frozen in roguish wryness. At first he helps Ryan chase her errant husband (Timothy Hutton). Then they both give up and fall in love. Funny? Not really. Touching? Barely. The audience, like the movie, ends up



Underwater pyrotechnics: Gene Hackman (left) and Denzel Washington (far left) in Tony Scott's 'Crimson Tide'.

glazed with well-mannered inanition.

The only person this week with an uncomplicated love life is an 18th century Italian castrato. The true-life title hero of *Farinelli* sacrificed vital body parts to triumph in song and opera, and apparently in bed as well. It is no good looking sceptical. If the film says so, it must be right.

Gerard Corbiau directs this costume drama with up-market voluptuousness, as if knowing that it would go straight to the Curzon Mayfair. We wind in and out of gorgeous palaces and gilded opera houses, listening to the fine-sung thread of our hero's falsetto. Handel (Geron Krabbe) is impressed and starts writing immortal chart-toppers. And women swoon around the young man day and night, especially night. "You were responsible for my first musical orgasm," coos one.

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# Nerds come of age in Silicon Valley



**BOOK REVIEW**

"Get a Life" is the constant refrain of the young computer programmers in Douglas Coupland's new novel. And the book is about their efforts to do just that - starting at Microsoft in Seattle and moving to a start-up company in Silicon Valley.

As a result, the plot is familiar, essentially a high-tech version of the traditional coming-of-age story. If the plot derives from the past, much of the book's intellectual baggage is aimed at the future: speculation of an essentially graduate-school nature about the relationship of consciousness with the cosmos, and how this is changing with the advent of non-human intelligence.

But the book's real appeal lies in its loving, endlessly detailed description of the present, which captures a mood and a moment with unrivalled deftness. The sureness of touch is evident right from the opening page in which Michael, the most talented of the group, gets "this totally wicked flame-mail from hell" from Bill Gates, Microsoft's chairman and founder, over the e-mail system.

"Actually, nobody on our floor has ever been flamed by Bill personally. The episode was tinged with glamour and we were somewhat jealous. I tried to tell Michael this, but he was crushed."

Michael vanishes behind the locked door of his office - Microsoft is famous for giving its programmers offices with doors, and once ran a recruitment ad which featured a picture of a typical door. His colleagues try to make him feel better by sliding flat food under his door. Pizza, the archetypal nerd food, has the additional virtue of two-dimensionality but the Microserfs settle for "Kraft singles, Premium Plus crackers, Pop-Tarts, grape leather, and Freeze-Pops".

The book is written in a dense shorthand of such allusions to American culture. Still in the first chapter, "If my life was a game of Jeopardy!" my seven dream categories would be: Tandy products; trash TV

**MICROSERFS**  
By Douglas Coupland  
Flamingo, £9.99 (in US, Regard)  
HarperCollins, \$21, 371 pages

of the late '70s and early '80s; the history of Apple; career anxieties; tabloids; plant life of the Pacific Northwest; Jell-O 1-3-3.

Apparently pointless details are layered on top of one another until they fuse into a vivid picture of west coast life in 1994 and early 1995. (Time is an important element of the book's precision: thermal fax paper is dismissed as essentially 1991.) In the book's concluding pages, as Dan finds peace at last, he does so lying in his girlfriend's arms "atop a threadbare promotional towel for Road and Track magazine". And one entire subchapter consists of the following: "Monday. Rained all day (32mm according to Bug). Read a volume of *Inside Mac*. Drove over to Boeing Surplus and bought some zinc and some laminated air-safety cards."

The book is stuffed with skilful one-liners that sum up aspects of white-collar life which rarely make it into literature. At marketing meetings, for example, "you end up being yourself that you know is just revolting". E-mail is better than telephone answering machines "because with them, the person on the other line might actually pick up the phone and you might have to talk".

Dan's mother is worried that his father, recently fired, may find it hard to get another job. "He's not young and he's never been competitive by nature. I mean, he was at IBM." Dan's girlfriend Kara, another programmer, is furious because he forgot their one-month anniversary. "I don't know about you, Dan," she interrupted, "but I programmed my desk calendar to remind me." And best of all: "Screensavers are the macramé of the '90s."

More seriously, *Microserfs* explores the motivation that makes young people devote their lives to grinding out computer code. The price paid is a high one: "Give us your entire

life or we won't allow you to work on cool projects."

The team spends hours trapped in front of their workstations, on enormously long sessions of coding and debugging. "Around midnight, December 25, Susan grunted, 'Uhhh, Merry Christmas.' We all reciprocated, and then went back to work." But the reward is the chance to be One-Point-Oh, "the first to do the first version of something. We had to ask ourselves 'Are you One-Point-Oh?' - the answer is what separates the Microserfs from the Cyberlords."

Now, a word of warning. Rupert Murdoch loves this book. Fox is planning to make it into a television series. Coupland, who has already had one cult hit with the novel *Generation X*, can be found glowing in glorious colour from the pages of *HotWired*, one of the most fashionable World Wide Web sites.

There are all the signs of unsustainable hype. It is easy to get carried away in the glamourisation of the essentially mundane Tracy Kidder's book, *The Soul of a New Machine*, did it for hardware engineers. Tom Wolfe did it for bond traders with "masters of the universe". Coupland has done the same for a collection of people who dress badly, eat junk and shop at Costco, on the grounds (sound familiar?) that "now nerds run the world".

Similarly grandiose claims are made for the superiority of the present over the past. Kara, the book's main visionary, says: "History is no longer useful as a tool in helping us to understand current changes... they didn't have Federal Express, Sky-Tel paging, 1-800 numbers, or hip replacement surgery in 1708."

Still, it is hard to dislike any book which points out the way computer programmers tape Gary Larson's *Far Side* cartoons all over their offices. "Techies are an intricate part of the lifecycle of *The Far Side* cartoon, the way viruses can only propagate in the presence of host organisms. Susan says, 'We are only devices for the replication of *Far Side* cartoons.' Now that's one way of looking at humanity."

Peter Martin

Could you bear to read another lecture by central bankers and finance ministry officials on the need to reduce budget deficits to get down world real interest rates? Or could you bear to hear yet again how rising proportions of dependents are going to put a strain on national budgets? Or how anti-inflation policies will be more credible if governments could reduce their debt ratios?

Such thoughts meant I was tempted to file away a study on *Saving, Investment and Real Interest Rates*, produced for the G10 industrial countries at the last meeting of the International Monetary Fund. (The G10 are really 11: the G7 mix countries plus the Netherlands, Belgium, Sweden and Switzerland. The group was set up to lead extra resources to the IMF.)

But on closer inspection, the study, which was chaired by Professor Mervyn King, chief economist at the Bank of England, does add a more optimistic note. The 19th-century British statesman, George Canning, once called into existence the new world to redress the balance of the old. In a similar way Prof King has called in the third world to redress the imbalance of the first. It is this new element which makes it worth persevering with the main outlines of the analysis.

The group was set up because of anxiety on the part of governments about high bond yields. These bond yields, of course, reflect an inflation premium. For bond holders need to be compensated against the possibility of inflation eroding the real value of their interest receipts. But even allowing as best they can for the present over the past, the group found that there was some tendency for real interest rates to rise. The increase was put at about 1 percentage point over the past 35 years to a level of about 4 per cent.

One way of approaching the problem, shown in the top chart, is to compare bond yields in G10 countries with inflation past, present and future over a few years. The periods of really low interest rates then appear to be around the two world wars, and the oil shock of the early 1970s.

An alternative approach is presented by the yields on British indexed gilts - the only well-established inflation-proofed bonds with a broad market. Canada and Sweden have more rudimentary or more recent indexed markets

with higher real yields. The detailed UK movements may have been influenced by specific domestic developments. But securities markets are now sufficiently global to rule out a completely insular interpretation. The picture presented of real interest rates of a little below 4 per cent may thus be broadly representative of at least the stable industrial countries. This is slightly less than in the early 1990s, but a good deal more than in the halcyon days of 1983 when pessimism about recovery from recession drove real interest rates temporarily downwards.

A long-term upward drift in real interest rates may reflect lower savings or greater investment demand. It is difficult to be sure after the event because, by definition, savings are equal to investment. In fact the G10 countries have experienced a fall in both savings and investment of about 5 percentage points of gross domestic product since the 1980s. The ratio now averages below 20 per cent of GDP.

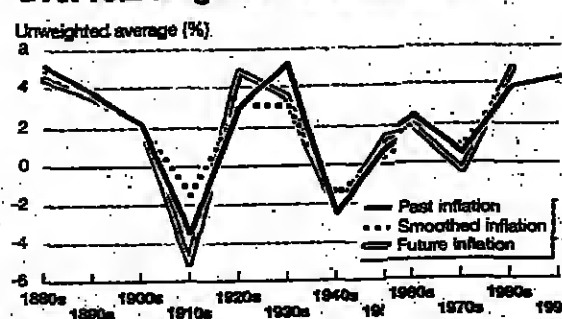
There has been some fall in private savings, but the driving force has been a reduction in the saving ratio of the public sector, which is another way of describing a deterioration in the budget balance. The conclusion of the G10 study is that the decline in desired savings outweighed the reduction in desired investment, and that this led to an upward influence on real interest rates.

## ECONOMIC VIEWPOINT

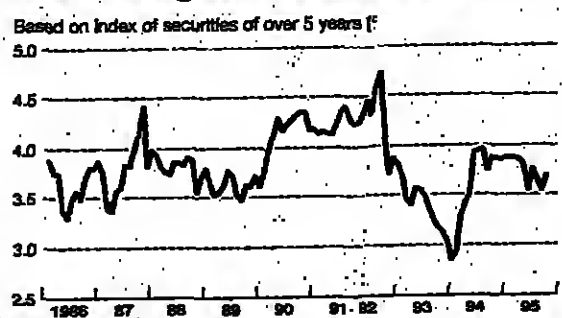
# Light ahead on interest rates

By Samuel Brittan

G10: real long-term interest rates



Yield on long-term UK indexed gilts



been on an upward course. At this point we come to the familiar moral that governments should reduce their deficits. One interesting aspect is that, in the global financial market, the effects of fiscal virtue or vice spill over from one

**The G10 report has called on the third world to redress the balance of the first**

country to the world economy. Thus it has been difficult to establish a clear and strong link between budget deficits or debt ratios and interest rates at the national level. But there is some evidence linking global public debts to global real interest rates.

The report does not come

clean whether virtue is its own reward and countries are fullrewarded for fiscal prudence by having to pay lower interest rates on their bonds because of reduced risk of inflation and default. Or is the an "externality" which mas it worthwhile for the ma world economies to tighten their fiscal belts together more than each might separately? The report is unclear.

Authors would like fiscal po' to be strict enough to ree the ratio of debt to GDP in trmal times and thus to ough any temporary set-backs during recessions or ot shocks. This is recommended on a world scale, and isry much in line with the Gnan interpretation of the Mitrict criteria.

A first think of light amid ahes warnings comes from pctions of the postwar baby

boom generation. Members of this group should be entering their highest saving years in the next 10 to 20 years. But when they begin to retire - in about 2005 in Japan and in about 2015 in Europe and North America - their impact will go into reverse. We will be back with the need to generate additional savings to pay their pensions.

Now we come to the main optimistic element. Demographic trends in the developing countries mean that these countries will boost their savings in this period by more than the decline in the presently industrialised world. The mere fact that countries with high savings ratios will become a larger part of the world economy will itself help offset the fall in industrial countries' savings.

But in its detailed arithmetic the G10 report, perhaps wisely, does not rely on the emerging countries providing the cavalry charge to boost world savings. Instead it concentrates on national efforts by its members. It estimates that to offset higher dependency ratios, G10 countries will have to improve their fiscal positions by between 1 and 3 percentage points of GDP in the first three decades of the next century - the smallest change is required by the UK.

It mentions four possible strategies. One is higher taxes, which it does not think will be acceptable. A second is cutting government spending. The US would have to make cuts equivalent to eliminating all defence spending. In Japan, they would have to be equivalent to eliminating spending not only on defence, but on a great deal more. A third strategy is to reduce benefit levels. This might be acceptable, but only if one were confident that private provision could really protect those who are worst hit.

But surely far and away the most attractive option is the fourth one: raising the retirement age by five years. This would do the trick completely in Japan and Germany, the UK and the US. This is surely the least painful method. The increase in dependency ratio is part of an improvement in health which would make it possible for a good many older people to do at least some work for several more years. It is mainly the primitive fallacy that more work for some means less work for others which prevents this suggestion being accepted *nem con*.

## LETTERS TO THE EDITOR

Number One Southwark Bldg, London SE1 9HL

We are keen to encourage letters from readers around the world. Let may be faxed to +44 171 873 5938 (please set fax to "fnc"). Translation may be available for letters written in the main international languages.

### Development bank no cure in Middle East

**From Mr Tarek Ben Halim.**  
Sir, I read the article headlined "Wanted: Middle East development bank" (October 27) by Lawrence Sumner and Joan Spero with interest. However, their case for such a bank, though eloquent, makes little economic sense at present.

The article stresses the need for such a bank to create an institutional framework within which countries in the region can co-operate economically and politically. It also calls for the creation of a forum to provide the venue for high-level policy discussion and co-ordi-

nation. Today what the countries in the Middle East and north Africa need is an intensive economic reform programme.

Countries in the region need to create an environment that will generate economic growth faster than population growth. One where the private sector can become the engine for future growth. They need to educate and train their population to meet these challenges. They need to spend less on the military. None of these needs can be addressed by a development bank.

If the authors are sincere in

their desire to see peace and economic prosperity in the region, a development bank is unnecessary and the time for a forum is premature.

Promoters of this development bank would do better if they redirected the energy they put into the debate on a regional bank into persuading their friends in the region to arm their economies. Regional economic co-operation cannot be built on weak foundations that stand today. The countries in the region must develop their economies first. According to World Bank, the Middle

East-north Africa region (excluding Israel), with a population of 200m, exports less (excluding oil) than Finland does with a population of 5m.

Regional economic co-operation can only happen when there is something to co-operate on. As Sumner and Spero state: "Economic improvement in the region will come most of all from the pursuit of the right domestic economic policies in each country." I suggest that this be the focus for now.

Tarek Ben Halim,  
31 South Terrace,  
London SW7 2TB, UK

### Chernobyl now ranks high on safety

**From Sergio K. Parashin.**  
Sir, I wish to clarify a few points which were made in David Lascelles' article on Chernobyl nuclear power station ("Journey to the centre of the world's worst nuclear disaster", October 30).

I have never claimed that the Chernobyl plant is the safest reactor in the world. However, according to the International Atomic Energy Agency, reactor one at Chernobyl ranks among the world's top 20 reactors in terms of overall performance which, among other things, includes safety.

In addition, Chernobyl has fewer safety-related incidents

than any other reactor in Ukraine.

The Chernobyl accident happened almost 10 years ago. As Lascelles acknowledges, since then a major transformation has taken place. Safety has been improved and the site has been cleaned up so that radiation dose rates at Chernobyl are well within the limits allowed by international regulations and expectations.

Chernobyl has been the subject of many sensational claims. It is now becoming apparent that many of the accusations made against the plant have no basis in fact. Whatever decisions are made

the Group of Seven industrial nations and the Ukraine government, I remain committed to improving safety at Chernobyl and believe it is reasonable to operate safely well into next century.

In behalf of the 4,000 staff of the thousands more whose safety and welfare depend on Chernobyl, I wish to emphasise that our plant welcomes honest, frank and open debate by the western media. Sergio K. Parashin,  
General manager,  
Chernobyl Atomic Power Station,  
10 Region,  
620 Ukraine

### British Gas report outlined liabilities

**From Mr Roy Gardner.**  
Sir, The letter from Mr John Half (October 28) questions why British Gas did not refer to its long-term gas supply contracts in the 1994 annual report.

Reference to gas purchase obligations appears on page 58 of the report in note 24(f), commitments and contingencies. This states: "Most of the group's gas supplies are from long-term depletion contracts, with initial contract periods of up to 25 years. Over the next five supply years... expected contract commitments entered into amount to approximately £15,400m." Difficulties with these contracts did not occur until 1986, and were reported in the half-year results. These were published in the Finan-

cial Times on September 8 and included the following details. The significant surplus of gas available in the UK market, the consequent severe decline in gas prices and the competitive non-tariff market had an adverse effect on the profitability of British Gas during the first half of 1995, and he difference between contracts is likely to have a greater impact in the second half.

The surplus of gas was due to ake-or-pay balances at December 31 1995. The board is keeping the situation under review to ensure constraints, warm weather and that our gas portfolio is managed by our competitors. Roy Gardner,

When releasing its interim profits this September, the company stated it expected to take a payment for gas not paid of about £500m in the second half of the year under its like-or-pay obligations. A provision of between £50m and £100m is anticipated to cover the difference between contracted prices and realisable selling prices for unutilised gas. This depressed prices in the executive director, finance, spot market from 17p per British Gas therm when last year's results were announced to less than 11.52 Grosvenor Road, London SW1V 3JL, UK

### TV body fails the quality test

**From Dr Stephen Castell.**  
Sir, In justifying the Independent Television Commission's choice of winner for the licence for Channel 5, the new UK terrestrial station, on quality rather than "highest bidder" grounds, Sir George Russell, its chairman, said that exercising discretion on programme quality was "slap bang in the middle of our job" ("Transnational consortium wins TV licence", October 28).

British Standard 4778 defines quality as the "totality of features and characteristics of a product or service which bear on its ability to satisfy a given need". Quality is thus not some private, unstated view of perfection. It is "fitness for purpose". Best practice in quality management dictates that this purpose, and need, must be set down by those for whom the service is intended.

No attempt was made by the ITC to find out from those for whom Channel 5 is intended - its viewers - what their need or idea of purpose is.

For the future good of British digital terrestrial television, the government must see more transparent processes for achieving "quality". These must reflect the wishes of all customers, not simply those of a clique of broadcasting establishment suppliers.

Stephen Castell,  
Channel 5 Digital Television,  
78D Newland Street,  
Witham CM8 1AH, UK

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THE MAGAZINE FOR A SCEPTICAL AGE

# Prospect

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## FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL  
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Thursday November 2 1995

## New Labour's Budget plans

Labour's Budget proposals have the important merit of starting from the right place. While Conservatives feverishly discuss the tax giveaways they need to win the election, Mr Gordon Brown, a self-styled chancellor-in-waiting, yesterday spoke loftily of a long-term plan to boost national investment and saving.

Mr Brown's diagnosis of the economy's long-term ills is largely accurate. Judged by the standards of many industrial countries, the UK has been both ill-managed - in macroeconomic terms - and under-productive. It must increase the long-term growth rate of productivity if it is to achieve durably higher economic growth rates, and to do that it will have to consume less and invest more.

The trouble with the analysis lies not with its accuracy but with the fact that it has been true of the UK for a very long time. Many have tried and failed to increase the UK's growth rate in the past. Mr Brown's task yesterday was to show precisely how Labour would do better.

First, there were worthy, if vague, proposals for gradually improving the environment for both savings and investment. And second, there were the more detailed policies to give an immediate fillip to investment.

The biggest barriers to UK investment are macroeconomic instability and the high hurdle rates demanded by corporate investors. Mr Brown has repeatedly promised to remedy the first. Yesterday he proposed tax reliefs

which would temporarily reduce the second barrier. International evidence suggests that investment in machinery and equipment has the greatest effect on long term growth.

The problem is that a temporary targeted increase in tax allowances would - by definition - not bring lasting gains. Rather, like the similar measure introduced three years ago by the government, it would merely encourage companies to bring forward by a year investments that they would have undertaken anyway.

In 1992, the change had little effect because companies were not planning to invest in the depth of the recession. This year, such a measure might have a more significant effect - were it not for the fact that the election timetable means Labour's Budget proposals for this year will not be implemented. Ironically enough, Mr Brown's plans for achieving a mini-investment boom in 1996 may thus even prolong the present slump, since companies may put off investing until after the election.

This problem could recur in other areas. Labour is rightly being pressed to offer more details of its policies. Yet the proposals it does offer could distort individual and corporate behaviour in the lead-up to the contest. Mr Brown correctly notes that investment requires a stable environment in which to plan. But this will be hard to achieve during a prolonged election period, when both main parties will be bidding for popular support.

## Bosnia endgame

The talks which began yesterday in Dayton, Ohio between the leaders of Serbia, Croatia and Bosnia have been described by senior western politicians as the best chance for peace, and the last chance for peace. Mr Richard Holbrooke, the US official who convened the talks, has also stressed that success is far from certain. And the tough rhetoric heard from all sides recently - while obviously part of the pre-negotiation brinkmanship - is a reminder that failure remains a distinct possibility.

No one should underestimate the consequences of failure. Not only would the war continue, but the humanitarian disaster would be rendered unmanageable. Already this year more than 300,000 people have been driven from their homes in Croatia and Bosnia, in addition to the estimated 4m displaced since fighting began in 1991.

Among the reasons why western governments fear such an outcome is the euphoria that palpably exists among Bosnian and Croatian army commanders, even as relations between their political masters deteriorate. The battle-hardened forces of the anti-Serb coalition in northern Bosnia see no reason to give up the struggle, at a time when they have finally turned tables on the Serbs. They are strongly tempted to try and recapture further areas of central and northern Bosnia containing the homes of Moslem and Croat refugees.

Only one country has the mus-

cle to restrain the Croats and Bosnian Moslems from renewed war, whether against the Serbs or against each other, and that is the United States. Washington's decisive intervention in their favour, and its apparent willingness to overlook the expulsion of Serbs from areas recently conquered, has given the US unequalled influence in both Croatia and Bosnia.

The European Union and Russia, as co-hosts to Dayton, have some role in driving home to the parties the consequences of fighting on, and the advantages of compromise. But the talks will stand or fall by the ability of the US hosts to restrain their Croat and Bosnian protégés while continuing to overawe the Serbs. Rightly or wrongly, some Europeans remain nervous about US intentions. They fear the US could lose interest in the Balkan crisis as rapidly as it became engaged; or that it will be influenced more by domestic politics than by the real needs of the region.

The lukewarm reaction of the US Congress to the proposed deployment of US troops in a peace implementation force in Bosnia has weakened the US administration's bargaining strength in the eyes of all parties in this situation, the most helpful thing Washington's allies can do is throw their weight unequivocally behind Mr Holbrooke's initiative, so as to convince the US Congress that implementing peace in Bosnia is an enterprise in which all western nations can and will play their part.

## EU arithmetic

If the European Union genuinely wants to strengthen the global trade system, it has a curious way of showing its commitment. After prevaricating for months over the establishment of the World Trade Organisation's new procedures for settling trade disputes, the EU has now presented its WTO partners with a demand which puts at risk much of the progress made in negotiations to date.

At issue is the composition of the appellate body, a quasi-judicial tribunal which will hear appeals to WTO disputes rulings. The main obstacle to agreement for the main body of this year has been insistence by the EU and the US on the right each to fill two of the panel's seven seats.

Washington now says it is prepared to settle for one seat. If Brussels does the same, that would be acceptable to Sir Leon Brittan, Europe's trade commissioner, and to some EU governments. However, under strong pressure from France, the EU Council of Ministers has refused to back down unless two conditions are met. The council wants changes in the proposed list of panel candidates, laboriously agreed by other WTO members, and assurances that nothing will exclude two Europeans sitting on the panel next time round.

The EU's position is doubly indefensible. The appellate body's authority, and its ability to make decisions stick, will depend on its being seen to be scrupulously independent. The EU's stance risks compromising that objective,

and weakening the effectiveness of the entire WTO dispute settlement system, by turning the selection of candidates into a sordid political power play.

The EU's demands for special treatment are also based on bogus claims to be the world's preponderant trading power. In the words of Mr Hervé de Charette, French foreign minister: "Having only one seat for the EU, when we represent 45 per cent of world trade against 17 per cent for the US, is neither fair nor normal."

In reality, the value of EU members' exports to the rest of the world last year was only 19 per cent of the global total. Almost as much again was accounted for by their exports to each other. However, to include these makes nonsense of the EU's claims to have a single internal market. On that basis, the US would be entitled to count all intra-state trade as part of its share of world exports.

Even including intra-EU trade, a 45 per cent estimate for the EU's share of world exports is inflated. In fact, it can be arrived at only if exports by Norway, Switzerland, the former Soviet Union and all of central Europe are added to those of the EU.

Such misrepresentations only diminish the respect and influence the EU can command in the WTO. The way to earn such respect is by dismantling more of its trade barriers. Where better to start than the Common Agricultural Policy, the single biggest impediment to free world trade?

The US group MCI, its executives will tell you, has never thought of itself as an ordinary "phone company". Coming from America's second biggest long-distance telephone operator, this seems a contrary notion. But MCI is a contrary company.

Amid the chaotic changes overtaking the world of telecommunications, certain themes recur: the need for global partners, the challenge of multimedia and - in the US - the looming confrontation between local and long-distance operators. MCI has answers to all these. They are rarely like anyone else's.

In some cases, its singularity lies simply in being first. While other companies like AT&T or France Telecom wrestle to put alliances together, MCI's joint venture with British Telecom is up and running. While others dither with multimedia, MCI has invested \$1bn (\$630m) - with a similar amount to follow - in a venture with Mr Rupert Murdoch, the formidable media strategist.

Conversely, when its US rivals spent \$7bn earlier this year on buying wireless telephone frequencies from the US government, MCI refused to spend anything. As for the forthcoming battle between US local and long-distance phone companies, in which both sides are expected to spend billions on invading each other's turf, MCI says offhandedly that it may spend less on local telephony in the next year than it did in this.

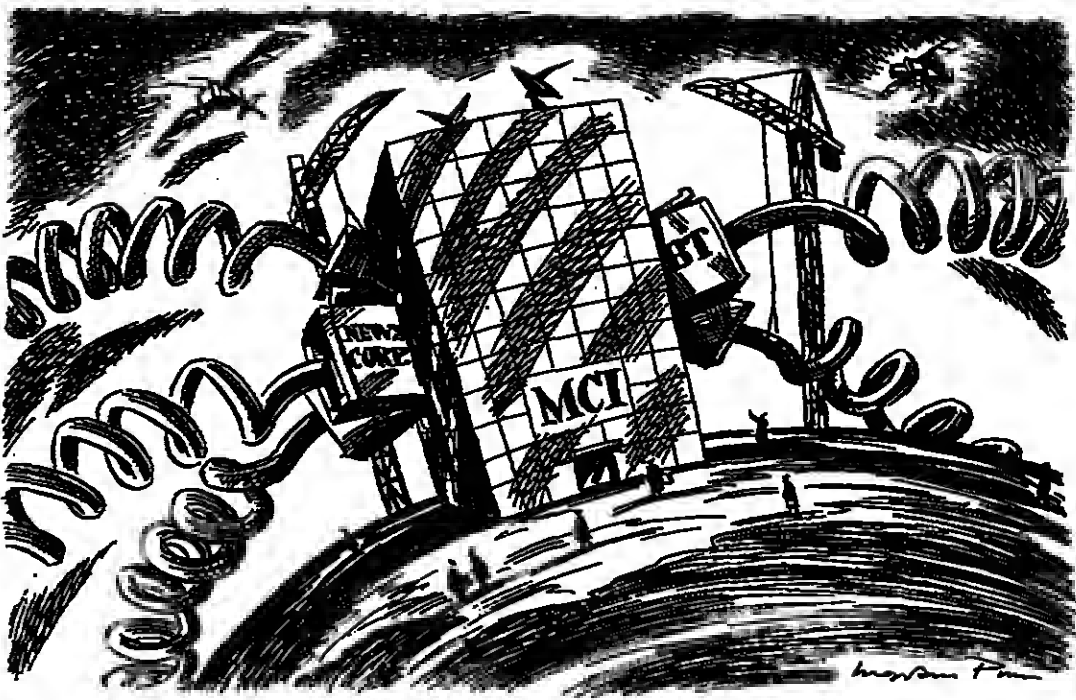
The company's contrarian streak lies deep in its origins. As a tiny outfit about 25 years ago, it hit on the idea of installing microwave towers along the route from Chicago to Seattle to allow trucks to call head office on mobile phones. The plan was opposed by AT&T, then the official telephone monopolist. MCI has been fighting AT&T and other monopolies ever since. Hence its claim not to be a phone company. Avid the world, it argues, phone companies are monopolists or ex-monopolists. As such, they are arrogant to their customers and vain about their technology. For MCI, customers are everything; and technology is merely something bought off the shelf to provide a service.

MCI now claims to be the world's biggest telephone operator never to have enjoyed guaranteed rates or customers. While its competitors grew up on taxpayers' money or monopoly revenues, MCI's early ventures were funded by Mr Michael Milken, the junk bond king.

The resulting attitudes are still pervasive. Mr Jack Grubman, telecom analyst at Salomon Bros, the securities firm, says: "It's tough to be an upstart when you have \$15bn of revenues. But historically, com-

US telecoms company MCI reckons it is nimble enough to profit from looming deregulation, says Tony Jackson

## Plugged into partnerships



panies like AT&T or BT or the Baby Bells [local US phone companies] all had unlimited access to capital. MCI was living hand to mouth as recently as the late 1980s. It hasn't forgotten where it came from."

Thus the company claims to have the best market data in the US. "No brag, just fact," says Mr Tim Price, head of MCI's telecoms business. "For years, we've rated our customers by 2000 variables - what they have for breakfast, what time they go to bed, what kind of music equipment they have. That's because when you go up against a month with 100 per cent market share, you have to pick your shots very carefully."

Again, MCI's decision not to bid for wireless frequencies in the recent US government auction was based partly on the expectation of a glut in the wireless market, which would allow it to buy capacity cheaply from its rivals.

There was also a more basic reason. Monopolists like the Baby Bells, says Mr Jerry Taylor, MCI president, have to protect their turf.

"We don't have a whole wired city that we have to defend. We don't need to own wireless, because we don't have the worry of an alien technology coming in to take our business away."

Above all, MCI argues, its penultimate original sin is being at striking alliances. As seen by MCI executives, the venture will cover both cross-marketing and joint ventures. An MCI telephone service can be marketed using characters from *The Simpsons*, News Corp's cartoon show, or News Corp's Fox studios can produce videos tailored to MCI subscribers. The partners have already started an embryonic joint venture on the Internet; and there is talk of MCI using News Corp's TV satellites to beam down data to its business customers.

If this sounds vague, there is a financial safety net. MCI's initial \$1bn investment pays interest at 6.25 per cent. Five years out, MCI stands to end up owning about 14 per cent of News Corp's equity. According to Mr Doug Maine, MCI's chief financial officer, analysts' pro-

jections show News Corp making enough profit by then for MCI to earn its minimum required rate of return on investment of 15 per cent. Concert, the joint venture with BT, is already selling products to 2,000 multinational companies around the world. A typical instance is intra-company dialling, whereby employees can call colleagues around the world on a seven-digit number without using country codes. Such products are of finite application: one MCI executive says companies with sales of less than \$50m probably could not afford them.

At this early stage, the business is loss-making and, as Mr Taylor concedes, it may never enjoy particularly high margins, since big multinationals can secure cheap rates. "But think of it like toilet paper," he says. "As a big company, you'll always get a better price. But the guy selling to you has lower costs as well."

With both the News Corp and BT ventures, MCI has the advantage of being ahead of the game. There remains one game it cannot control: the imminent legislation to deregulate US telecoms, which will determine the shape of the battle with the local phone companies.

Publicly, at any rate, MCI seems unworried by this. So do some outside observers, like Mr Grubman of Salomon. Let us assume, he says, that the legislation will prove even-handed, if only because of the pressure of lobbying from all sides. In that case, MCI will probably lose some market share in long distance to the Baby Bells, and win some local share in return.

Others are less sanguine. Mr Dan Reingold of Merrill Lynch, the securities house, says: "You have to distinguish between the company's perspective and the investor's. The long-distance companies say: 'We're good enough to get through this deregulation of telecoms, which they are. But whether their survival will result in the cash flow and earnings which Wall Street expects is another question.'"

Mr Grubman raises a further possibility. For at least some of the Baby Bells, partnership with a long-distance company could be an attractive solution to the perils of deregulation. AT&T is too big to trust, while Sprint, the third biggest long-distance company, is already tied to a group of cable TV companies. What more natural than to turn to MCI, the established expert at alliances?

Some such thinking might account for MCI's relaxed air as it confronts the competitive future. Or perhaps it simply relies on the belief that "phone companies" are dumb, arrogant and easy to beat.

## Electronic money is in race with Emu



PERSONAL VIEW

Economic and monetary union or electronic money? Recent suggestions that the start of Emu might be delayed beyond 1999 raise the intriguing possibility that a viable international electronic money will be available before the European single currency. Indeed, the former could make the latter redundant.

The new generation of electronic money, now being tested, offers many features that address the problems faced by cross-border travellers in Europe. It would carry a plastic card that would let them download funds from their bank account using a mobile phone or cashpoint, or at a post office. The card could then be used to make purchases up to the value of the sum downloaded.

Because the cost of foreign exchange transactions under such a system would be so low, users would find it easy to swap to hold funds in several currencies.

Credit cards already offer a form

of multi-currency payment. But they are costly, with unfavourable exchange rates and high charges to retailers, and they are unsuitable for small transactions such as bus fares. Nor can they be used for person-to-person transfers, as with electronic money, or e-money.

Credit cards are also available only to people with a record of stable financial affairs, whereas electronic money is pre-paid - you cannot spend what you do not have - and available to all.

From the perspective of the single currency, there is a greater difference between credit cards and electronic money. With credit cards, the retailer receives local currency, the card holder pays the bill in his or her home currency, and the card provider makes the currency exchange. With electronic money, card holders and retailers would choose which currency to hold and to conduct the transaction in.

With e-money, it would become natural to hold an appreciating foreign currency for transactions at home and abroad. In short, e-money offers true "currency competition".

Unleashed on Europe's present

babel of currencies, the effect could be dramatic. Smaller currencies could almost disappear - especially if there is any hint of systematic depreciation. Even larger currencies would face a substantial decline in usage if they were weak.

With private sector transactions voluntarily taking place in strong foreign currencies, weaker currencies would progressively be reduced

**With e-money, users would find it easy and cheap to hold funds in several currencies**

to being used for a residual lump of "legal tender" transactions, such as tax payments. Long-term credibility as a strong currency would become even more important than at present. This is because the use of interest rates to prevent depreciation would be blunted by the new mobility of large amounts of money, in non-interest bearing accounts, kept for making electronic transactions.

Depending on your perspective, this would be either disaster or nirvana. Disaster, because governments and central banks in countries with weak currencies would lose the seigniorage that currency issue brings, and the sovereignty it is supposed to provide (but may not). Disaster, because it would destroy two central aims of Emu: the sharing of power between monetary authorities, and the attempted imposition of currency soundness by institutional fiat. Nirvana, because it would provide people with a powerful protection against the random and hidden taxation imposed on them when governments inflate, and because it would create monetary soundness via market forces.

Will it happen? Governments may try to slow it by discouraging retailers from accepting electronic payments in foreign currencies. But it would be hard to prevent.

With e-money the costs both of currency exchange and of obtaining "cash" from the bank would be low, and access immediate. So users would not need to keep on their card the normal small balance to

tide them over in the event of something unexpected.

Although the promoters of e-money espouse the idea that their medium would be a vehicle for the single currency rather than a rival, the race is on. If the present timetable for the single currency - of 1999 plus three and a half years' transition - is adhered to, it may materialise before e-money becomes established. However, if there is a significant delay, e-money may make the whole Emu project an obscure anachronism.

Yet if the single currency did win the race, any small or medium-sized economy that stayed outside it would need to beware. Its currency would need to be seen as strong, otherwise it would find almost all its transactions taking place in electronic single currency. It would de facto have joined Emu without having a seat on the board of the new European central bank.

Giles Keating

The author is head of global economics at CS First Boston in London.

## OBSERVER

## Vanity fair for Vaclav Klaus

■ Vaclav Klaus, the Czech prime minister, is a man of many parts: politician, economist, privatisation guru, scientist, tennis ace, he's done them all. But one title, that of professor, has always eluded him.

Until now, Ivan Filip, education minister, has just handed Klaus his scroll as professor of sciences at the Prague School of Economics, which is the *alma mater* of some of the country's keenest minds.

His elevation has raised eyebrows among Czech academics. Does he have the right technical qualifications for such a prestigious position? Some academics suggest he's neither devoted sufficient time to teaching, nor published enough scholarly tomes. His application listed his numerous speeches among his publications.

And of course there is the political dimension. "I don't think it is appropriate for a prime minister to accept such a position from his own education minister," is the view of Frantisek Turnovec, director of the Centre for Economic Research and Graduate Education at Charles University. Turnovec cited that as the reason why he declined to be a referee for Klaus's application.

Such high-minded carping is unlikely to bother Klaus, who no doubt will carry on lecturing the

world in the same old way.

## Turkish delights

■ Campaigning in Turkey's general election has certainly started with a bang - of sorts. Leading lights in the country's feared security services are lining up as candidates in Tansu Ciller's True Path party.

Among them is Unal Erkan, governor of the 11 mainly Kurdish provinces under emergency rule, where troops are frequently accused of human rights violations in their 11-year war against Kurdish guerrillas. Another is Necdet Mensur, a former Istanbul police chief who was forced to resign for sneering at politicians' concerns over torture and "disappearances" at police stations. Joining them is Dogan Gires, a tough former chief of general staff.

Meanwhile, Ciller's cabinet is still graced by Ayvaz Gökdemir, a nationalist hardliner who sprang to international attention a couple of months ago by grossly impugning the honour of three senior women Euro-MPs during a visit to Turkey, for which he has yet to apologise.

## Sporting chance

■ Another of Hong Kong's additions crumpled yesterday with the appointment of an ethnic Chinese as chief executive of the Royal Hong Kong Jockey Club. Since 1984, when the club was

founded, a retired British general has always held the post.

Not so from April 1 next year, when, to keep up with the passing of the expatriate in Hong Kong, Major General Guy Watkins, the present incumbent, steps down. His place will be taken by Lawrence Wong, 56, president and chief executive of Ford, the US car maker, to Taiwan will take the reins of what is the colony's biggest betting shop, charity, and, with a turnover of HK\$750m, is also one of its largest commercial enterprises.

## Flat broke

■ Looks like President Jacques Chirac has escaped any kerfuffle similar to that which recently embarrassed Alain Juppé, the French prime minister, about apartments.

Chirac is one of a number of top French movers and shakers who have long benefitted from favourable terms for housing owned by the city of Paris - of which Chirac was mayor until earlier this year.

A French administrative court has just ruled that there's nothing illegal in the arrangement by which Chirac pays a modest monthly FF12,000 rent for his spacious garden flat in central Paris, which was bought in 1989 by a company partly owned by the city authorities.

According to the weekly magazine *Canard Enchaîné*, Judge

Roland Vandermueren, head of the same court, himself lives in city-owned accommodation, with the even more modest monthly rent of FF3,600. Naturally, as Vandermueren told the paper, this had no bearing on his decision in Chirac's case.

## Ruud manners

■ Ruud Lubbers, odds-on to get Nato's top job, certainly has tough-tongued credibility. Other politicians moan about evildoers; Lubbers prefers the hands-on approach. As Dutch prime minister he twice chased and rugby-tackled thieves attempting to steal his wife's car radio, holding one crook by the scruff of the neck until the police arrived.

But more important, perhaps, he's never wavered on nuclear missiles. Observer's most lasting memory of his premiership is of a speech he gave to anti-nuclear protesters in The Hague. As he began, they all turned their backs to him. Lubbers, paying no attention, gave a perfectly measured address. Might be a useful skill, one day.

## Endangered

■ USA Today reports that Fish and Wildlife Service scientists in Tacoma, Washington, plan to kill 40 black sea ducks to find out why their numbers are declining. It must make sense to someone.

## Financial Times

## 100 years ago

Revolt by shareholders  
Striking evidence has been afforded during the past year or so of a tendency on the part of shareholders to take an active interest in the affairs of the companies in which they are interested. It has always been a regrettable fact that, as a rule, the great body of shareholders take very little intelligent interest in the concerns with which they are connected, but leave the salutary criticism of the policy of the Directors and of the methods pursued by them to the few of their fellow shareholders who are energetic enough to formulate ideas of their own as regards their own property. Such a state of matters, we have no hesitation in saying, conduces to a good deal of the corruption which exists among joint-stock enterprises.

## 50 years ago

Nationalisation programme  
Statements were made yesterday in both Houses of Parliament on the future of civil aviation. The Government proposes setting up three public corporations, wholly financed out of Government funds, to operate all regular scheduled services within their assigned fields. Lord Winston, Minister for Civil Aviation, said public ownership would be the "overriding principle in air transport."



Complex scams reported among 32m Americans in schemes  
**US frequent flyer fraud growing**By Michael Skapinker,  
Aerospace Correspondent

Frequent flyer fraud is on the increase in the US, as are acrimonious divorce disputes in which spouses squabble over the ownership of air miles, according to Mr Randy Petersen, a leading expert on airline loyalty programmes.

Mr Petersen, who publishes a magazine for frequent travellers, says he is having to spend a substantial amount of time in court as an expert witness in fraud trials and civil disputes.

Fraud is growing as the number of people participating in frequent flyer schemes increases. Mr Petersen says there are 32m Americans participating in programmes and 37m worldwide.

Frequent flyer fraud often involves travellers checking in for flights but failing to board the aircraft. The travellers claim the points for the flight they failed to take and then demand a refund for their unused tickets.

He says this type of fraud is far more difficult to perpetrate in Europe where security officials pay particular attention to travellers who check in and then fail to board their flights.

A second type of fraud identified by Mr Petersen involves travellers hanging around airports looking for discarded used airline tickets. They then erase the name on the ticket, replace it with their own and claim frequent flyer points for the flight.

A frequent flyer was recently

sentenced to 18 months in prison in Texas for a more complicated fraud in which he purchased both full fare and discount tickets for the same flight.

He checked in using the full fare ticket, in which airline officials stamped his boarding pass. They also credited him with the higher number of frequent flyer points awarded to full fare passengers.

He then removed the boarding pass, re-stamped it to the discount ticket and presented this before boarding. After completing his flight, he claimed a refund for his unused full fare ticket. When arrested, he had 300 used discount tickets in his possession.

Mr Petersen says a very common form of fraud, engaged in by

many otherwise exemplary citizens, involves people who register for frequent flyer programmes but do not travel often. They then pay others \$50 to travel under their names and accumulate points on their behalf.

Mr Petersen says frequent flyer points are a growing feature of divorce actions, with the non-travelling spouses claiming half the points accumulated by the other.

The death of a frequent flyer is another cause of legal action, with family members arguing over who should gain possession of the deceased's points. Mr Petersen advises readers of his magazine to say in their wills that they want to inherit their points.

**Çiller warns  
over customs  
union delay**

Continued from Page 1

Choices [would be] governed by restrictions dictated by fundamentalist laws. This is factual and realistic. I am not exaggerating.

She also promised that if returned she would pursue economic reform with greater vigour. Last year Turkey suffered record inflation of 126 per cent and the economy shrank by 6 per cent following a severe balance of payments crisis.

She promised to accelerate the stalled privatisation process, reform the bankrupt social security system and lower inflation to less than 5 per cent a year within three years.

However, the European parliament's ratification debate will be dominated by political and human rights issues. Mrs Çiller's conservative True Path party is negotiating an election alliance with the far-right National Action party and has adopted as candidates officials from the security forces implicated in human rights violations.

**Union offers  
limit on pay**

Continued from Page 1

IG Metall officials believe the union's more flexible attitude towards wage negotiations would not only lead to more jobs but also encourage companies to invest at home rather than abroad. In the first half of this year, investment by German companies outside the country doubled to DM28bn (\$20bn) compared with the same period last year.

In yesterday's speech, Mr Zwickel broke one of the union's long-standing taboos with regard to the long-term unemployed. IG Metall dropped its opposition to the re-employment, at a reduced wage, of those out of work for long periods.

**London Stock Exchange  
'missed boat' over Europe**

By Norma Cohen in London

The London Stock Exchange has missed the opportunity to turn itself into Europe's central share dealing system and will never be more than another local exchange, a Swiss banker who resigned in July as one of its directors said yesterday.

Mr Rudolf Mueller, chairman of UBS UK, a division of Union Bank of Switzerland, said he had resigned a year before the end of his term because he was disappointed at the exchange's failure to transform itself into a European exchange.

"What is sad is that London has missed the boat," Mr Mueller said in an interview. "I have found it increasingly difficult to understand what the exchange is aiming at."

Mr Mueller's remarks are a blow to the prestige of the London exchange, which has promoted itself as the European centre for international share dealing. It has been trying to persuade leading European compa-

nies to seek UK listings to take advantage of the large pool of capital in London.

Mr Mueller said the diminution of the exchange's role did not affect London's future as a financial centre. "London will remain the centre for international investment, but for that we do not need the exchange."

Where the exchange went wrong, Mr Mueller said, was in relying too heavily on the efficiency of its Seaq International electronic bulletin board for cross-border share trading.

New European Union rules allowing "remote membership" of European bourses by members sited in other countries mean that many investment banks can choose London as their European base while carrying out business across the continent.

In recent years, European bourses have fought back, modernising their technology

and trading rules and winning back business from London. Last week, National Westminster Bank announced it would reduce its use of SEAQ I in favour of local bourses, a move UBS and other leading investment banks say they have already made.

Mr Mueller said that the declining use of SEAQ I was a disincentive to European companies to seek a UK listing.

"It would have been possible to set up a common European exchange before the bourses began to modernise," he said.

But to have done so, the exchange would have had to make approaches and been prepared to surrender some of its own control. "I was convinced [the London] stock exchange had a unique opportunity to remain the stock exchange of Europe," he said. Now it was too late.

Mr Mueller said that one indication of the exchange's insularity is that, with the exception of himself, it has never invited a non-British European to sit on its board.

**Playboy bets on bunny revival**

By Raymond Snoddy in London

A species long thought to be extinct may be about to make a comeback. One of the most potent sexist symbols of the 1960s and 1970s - the Playboy Bunny - could be about to reappear in the politically correct 1990s.

Ms Christie Hefner, chairman and chief executive of Playboy Enterprises and daughter of its founder, said last night as she launched the Playboy Channel on UK satellite television that she was thinking of making a return to the world of casinos.

And casinos mean Bunnies. Not the old fluffy-tailed, stiletto-heeled Bunnies of old, but Bunnies all the same.

"We would probably do an

updated approach to the costume," said Ms Hefner who said attractive women would simply be something that people would expect of a Playboy casino.

Casinos were something that the Playboy organisation got out of, or was forced out of, in the early 1980s. In 1982, Mr Hugh Hefner, founder of the Playboy empire, was found unfit to operate a gambling establishment in New Jersey. The previous year, Playboy was obliged to sell its UK casino interests after contravening gaming laws.

But Ms Hefner said yesterday that she was willing to look at opportunities to go back to the casino business. "It's the fastest-growing area in the whole entertainment world. Playboy is the owner of the only entertainment

brand that has that kind of history and cachet in casinos."

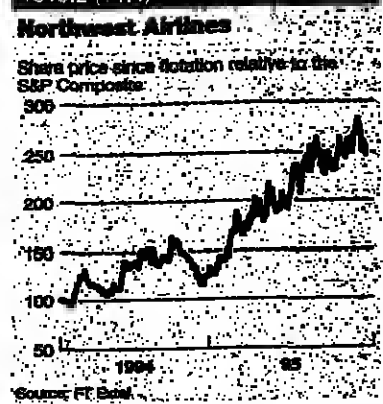
Given the right circumstances, presumably including attention to regulatory details, she believes casinos could be a high-margin, long-term business.

"We will look for upmarket opportunities overseas. We see it as a counterpoint to Disney theme parks," she said.

The launch of the Playboy Channel went better than Playboy could have imagined.

There was plenty of free publicity after criticism from Mrs Mary Whitehouse, veteran British television taste and decency campaigner, and the Methodist Church's decision to sell its 220,000 shares in BSkyB as a protest against the launch of the mildly erotic channel.

## THE LEX COLUMN

**The sky is the limit**FT-SE Eurotrack 200:  
1515.2 (+1.4)

lead to more investment by UK companies.

If the UK has a long-term investment problem it is not for want of tax breaks. The figures suggest the reverse: in the years after 1994, when 100 per cent capital allowances were abolished, business investment sharply rose. If anything it rose too far: boom was followed by bust. But 14 per cent of GDP, where the figure has settled, is still comfortably above the levels of the 1960s and 1970s.

If governments are serious about encouraging business investment they should avoid tax gimmicks and concentrate on economic stability. Companies will continue to judge investments against high hurdle rates until they believe the UK has really abandoned boom and bust. History has taught them caution.

**J. Sainsbury**

The message from J. Sainsbury's interim results is that price competition between big food retailers is back in earnest. In retrospect the discounting of 1993, which saw off the threat of discount stores, looks like a phoney war. The real battle for market share is between the superstore giants - Sainsbury, Tesco, Asda - all of which are now fighting fit. If the current wave of price-cutting continues, Sainsbury expects its gross margins to decline by up to half a percentage point in the second half.

Some of the margin erosion is self-inflicted. Like its peers, Sainsbury is investing in service improvements, advertising and promotional gimmicks such as loyalty cards. But while others are seeing a return on their invest-

ment in terms of higher sales volumes, Sainsbury is taking the pain without any corresponding gain. In real terms, sales at its existing stores fell in the first half. This explains the 5 per cent fall in the shares yesterday, against a 3 per cent sector decline.

The outlook for food retailers' shares in such a competitive environment is difficult to fathom. Sainsbury kept pace with the wider stock market in the 1980s when it was expanding fast, enjoying modest organic growth and stable margins. The rate of new store openings has now declined. Sales at existing stores are falling and margins are under pressure. The sharper marketing focus promised by the company may stop the immediate rot. Unless it can deliver impressive gains from diversification, though, in the long term the shares will struggle to outperform.

**Whitbread**

It is easy to see why Whitbread has focused its expansion on food retailing and leisure, rather than its traditional core business of brewing. Even with its high-quality premium beer brands and a roasting hot summer, brewing profits still fell, after stripping out the cost of financing trade loans. Margins on take-home beer sales continue to decline, and profits will inevitably suffer in a cooler summer.

Even pub retailing is finding the going tough, with like-on-like sales growth of around 4 per cent. Nonetheless, Whitbread has been aggressively revitalising its pub portfolio, and the results of its investment can be seen in the division's 13 per cent profits growth. This bodes well, given the pace of capital expenditure on inns, hotels and restaurants. Whitbread opened 62 new sites last year, is on track for 115 openings in the current year, and has a further 127 in the pipeline. This should help fuel medium-term growth, even if the chancellor is parsimonious with his anticipated pre-election handouts.

Whitbread's recent acquisitions, from hotels to health clubs, look far less appealing than those it missed, and will do little for next year's earnings. But it could easily fund the next obvious target, Carlsberg-Tetley. This has the attractions of an eager seller and substantial cost savings through merger with its existing brewing business. But if Whitbread fails, it will look increasingly marginal in a rapidly consolidating UK brewing industry.

**UK taxation**

The UK Labour party has concluded that the former Tory chancellor, Mr Norman Lamont, was right. Mr Lamont spent £900m increasing capital allowances for a year in 1992-93; now Labour has revived the idea. It is a bad one. With UK investment running at over £100bn a year, a new tax break would either make negligible impact or it would be prohibitively expensive. Either way, much of the benefit would be wasted, going to companies that would have invested anyway.

Nor would Labour's vague proposals to encourage saving achieve much. If anything, new tax breaks in this area would be even more expensive. Besides, in a world of international capital markets, there is no reason why more UK savings will necessarily

This announcement appears as a matter of record only.

COATS  
VIYELLA

Coats Viyella Plc

Disposal of

Carpets Division,  
Yarns & Fabrics Division and  
Textured Jersey**Baring Brothers**

acted as financial adviser to Coats Viyella Plc in this transaction



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MARCH 1995

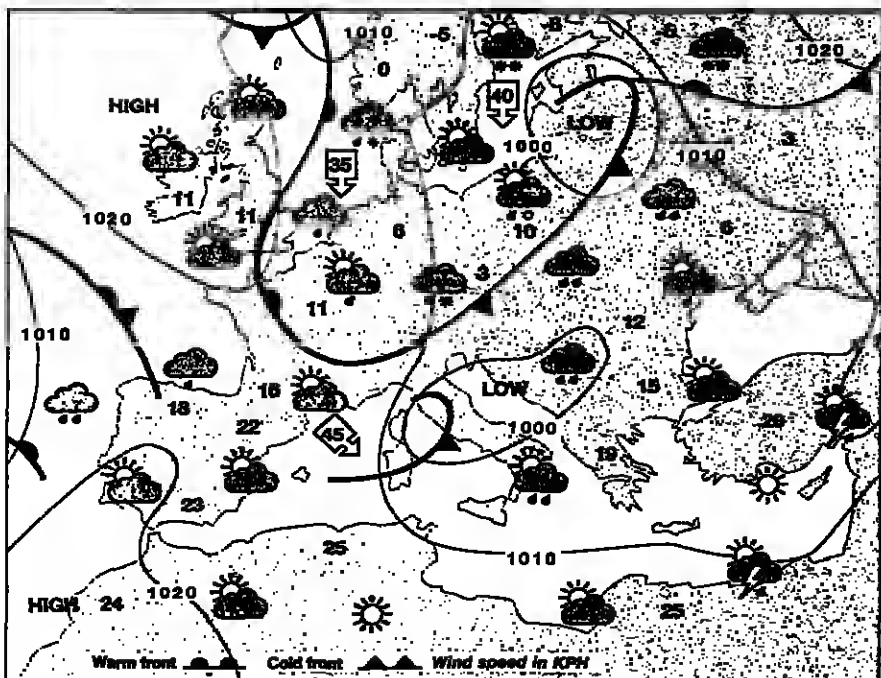
## FT WEATHER GUIDE

**Europe today**

A ridge of high pressure over the British Isles will bring settled conditions and sunny spells. East of this high pressure, colder air will spread into the northern part of the continent. The edge of warmer air will give rain and the Alps will have snow above 1,300 metres. Over eastern Europe, the transition to cooler air will cause cloud and scattered rain. Much of Scandinavia will have afternoon temperatures below freezing. Cloud and rain will linger over Denmark and the Benelux as slightly warmer air moves in from the west. Much of Italy and the western Balkans will be unsettled with plenty of showers.

**Five-day forecast**

Central and eastern Europe will become colder as arctic air arrives from the north. There will be heavy rain and snow along the boundary with warmer air. South-east Europe will have a lot of rain tomorrow, and the Alps will have further snow on Saturday. High pressure will leave the continent, giving way to more unsettled conditions. The UK will have rain this weekend.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

**TODAY'S TEMPERATURES**

	Maximum	Minimum	Beijing	sun	18
Abu Dhabi	sun	31	Bolgrad	rain	11
Accra	thund	31	Berlin	rain	11
Algiers	fair	25	Bermuda	cloud	28
Amsterdam	cloudy	11	Bogota	cloudy	19
Aden	fair	20	Bombay	sun	35
Atlanta	cloudy	23	Brussels	cloudy	9
B. Aires	sun	27	Budapest	rain	9
Bjorn	sun	10	Chagan	sun	8
Bangkok	rain	33	Cairo	rain	25
Barcelona	cloudy	21	Cape Town	showers	19

We wish you a pleasant flight.

**Lufthansa**

	Maximum	Minimum	Beijing	sun	18
Cardiff	sun	11	Frankfurt	sun	11
Casablanca	sun	23	Geneva	rain	10
Chicago	showers	13	Manchester	sun	10
Cologne	fair	7	Glasgow	fair	29
Dakar	sun	19	Hamburg	showers	8
Dallas	cloudy	21	Helsinki	cloudy	20
Delhi	sun	31	Hong Kong	sun	28
Dubai	sun	31	Honolulu	fair	30
Dublin	sun	11	Istanbul	sun	17
Dubrovnik	rain	16	Jakarta	showers	32
Edinburgh	sun	10	Jersey	fair	11
			Karachi	sun	35
			Kuala Lumpur	fair	34
			Las Palmas	sun	22
			Lima	cloudy	20
			Lisbon	cloudy	12
			London	fair	12
			Luxembourg	cloudy	8
			Lyon	showers	10
			Madrid	fair	24
			Malaga	cloudy	20
			Manila	sun	22
			Melbourne	showers	27
			Mexico City	cloudy	30
			Miami	sun	30
			Montreal	cloudy	9
			Moscow	snow	-1
			Munich	rain	5
			Nairobi	fair	25
			Naples	showers	18
			Nassau	fair	30
			New York	sun	19
			Nice	showers	21
			Oslo	cloudy	5
			Paris	cloudy	11
			Perth	sun	20
			Prague	rain	6
			Rangoon	fair	34
			Riyadh	drizzle	8
			Rio	rain	28
			Rome	showers	19
			S. Francisco	sun	28
			Seoul	cloudy	11
			Singapore	thund	32
			Stockholm	sun	22
			Strasbourg	rain	9
			Sydney	sun	32
			Taipei	sun	28
			Tel Aviv	showers	23
			Tokyo	sun	19
			Toronto	cloudy	15
			Vancouver	cloudy	7
			Venice	showers	15
			Vienna	showers	9
			Warsaw	cloudy	22
			Washington	cloudy	2
			Wellington	fair	14
			Winnipeg	fair	-6
			Zurich	rain	0

مكتبة الامير





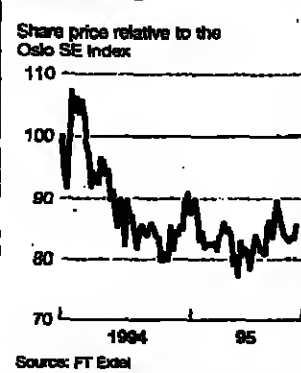


## INTERNATIONAL COMPANIES AND FINANCE

## EUROPEAN NEWS DIGEST

## Write-back boosts Christiania Bank

Christiania



Source: FT Data

Christiania Bank, Norway's second-biggest bank, doubled operating profits from Nkr1.18bn to Nkr2.32bn (\$72.5m) in the first nine months. The key to the performance was a write-back of Nkr1.06bn previously set aside as loss provisions. The development reflected the boom in the Norwegian economy and very low levels of new losses. In spite of the improvement, the bank's shares fell Nkr0.2 to Nkr14.30 after it warned that write-backs would steadily decline and loan losses would rise from 1994 and 1995 levels in the longer term. It also said margins were being squeezed by fierce competition. Operating profits before the loan loss impact were only slightly higher than last year at Nkr1.27bn against Nkr1.17bn. Growth in net interest income from Nkr2.33bn to Nkr2.5bn was offset by a fall in non-interest income from Nkr1.12bn to Nkr1.09bn and an increase in expenses from Nkr2.38bn to Nkr2.32bn.

The performance contrasted with trends at Den norske Bank, Christiania's main rival, which reported its nine-month figures on Tuesday. DnB saw a fall in net interest income from Nkr3.54bn to Nkr3.42bn, but compensated for the drop with a big increase in profits from currency and bond trading. DnB wrote back Nkr374m of previous loan losses.

In the third quarter, Christiania lifted profits from Nkr338m to Nkr502m. Good growth in non-interest income compensated for a reduced level of loan write-backs. The bank said problem commitments fell by Nkr1.1bn to Nkr6.9bn during the period. They are now Nkr10bn below the level of 2½ years ago, when Norway was gripped by a serious banking crisis.

Christopher Brown-Humes, Stockholm

Pharmacia, the Swedish drug group, said 98 per cent of shareholders had voted for its proposed merger with Upjohn of the US. The acceptance period is being extended to November 17, it said.

The original acceptance deadline of October 20 was extended to October 27 for US shareholders following enquiries from the US Federal Trade Commission into aspects of the two companies' research and development.

The FTC cleared the merger on Monday. Mr Jan Blomberg, finance director, said he expected the merger to generate savings of more than \$100m this year against the \$300m previously forecast.

AFX News, Stockholm

## Maculan incurs Sch458.1m loss

Maculan, the troubled Austrian construction group, has reported a Sch458.1m (\$46.23m) loss in the first half of 1995, mainly because of the difficulties of its subsidiaries in eastern Germany. It warned the full-year results would be "greatly burdened" by further provisions and restructuring, which was being worked out with advisers. It said the projected measures "should enable the group to return to sustainable profitability by the year 1997".

Maculan issued a warning on September 4 that it would suffer "a considerable loss" this year because results of its German operations were "far below expectations". It said its German and Austrian bankers had agreed to continue their financial support.

Maculan has been one of the most aggressive investors in eastern Germany following the lifting of the Iron Curtain, with DM340m (\$241.4m) invested to date. However, its growth outstripped its management capacity. Local managers were not adequately supervised and the group was slow to react to increasingly severe competition from companies based in weak currency countries.

The group said yesterday its turnover in the first half was up 12 per cent to Sch7.74bn, with 54 per cent attributable to eastern German business. Orders in hand at the end of June stood at Sch11.22bn, 11.8 per cent higher than a year earlier.

Ian Rodger, Zurich

Hungarian Oil and Gas (Mol) and OMV, the Austrian oil company, have accepted the Croatian privatisation fund's offer to purchase 12.5 per cent each of the Adriatic pipeline for DM155.7m.

Thomas Kiss, Budapest

Mol share issue details, Page 24

## KLM faces court battle with US partner

By Ronald van de Krol in Amsterdam and Maggie Urry in New York

KLM Royal Dutch Airlines may go to court to fight a proposed "poison pill" mechanism at Northwest Airlines, its US partner, that threatens to curtail its voting power in the US carrier.

The Dutch national airline, which currently holds 21 per cent of the votes at Northwest, acknowledged yesterday that it was in disagreement with "certain other shareholders" about proposed "corporate governance measures".

The dispute came to light after Northwest said in a filing with the US Securities and Exchange Commission that it could force court action from KLM over what it called a "shareholders' rights plan".

KLM declined to name the other parties to the dispute, but they are believed to be Mr Gary Wilson and Mr Alfred Checchi, the two financiers who acquired Northwest in a 1989 leveraged buy-out in which KLM took part.

The US airline's board of directors, co-chaired by Mr Wilson and Mr Checchi, is considering limiting the size of any one shareholder's equity to between 15 per cent and 20 per cent.

In addition to the 21 per cent voting rights, the Dutch airline holds 25 per cent of Northwest's common stock. It also has options to buy additional vote-carrying shares in 1998.

Northwest defended its poison pill proposals as being in the interests of all shareholders, particularly in light of increased merger and takeover activity in the aviation sector. It will be discussed at a board meeting on November 16.

"Any KLM litigation that might arise from this disagreement would be without merit," Northwest said yesterday, adding that all of its big competitors had similar "caps" on stock ownership.

In Amsterdam, KLM said it had no objections to poison pill constructions designed to protect Northwest against "undesirable outside threats." But it did "object to attempts to affect adversely the rights granted to KLM in the past".

KLM, which raised its Northwest stake from 20 per cent to 25 per cent in September 1994 by buying shares owned by Foster's Brewing of Australia, repeated yesterday it had no interest in gaining control over Northwest. However, it would not be drawn on whether it wanted to raise its shareholding.

KLM insisted yesterday that its dispute was not with Northwest but with some of its shareholders, adding that the two airlines' alliance would not be affected.

Lex, Page 16

## BHF-Bank sees profit growing 10%

By Andrew Fisher in Frankfurt

BHF-Bank, the German merchant bank, is on target for a rise in operating profits of at least 10 per cent this year after a 6 per cent increase to DM242m (\$171.83m) in the first nine months, Mr Wolfgang Strutz, chairman, said.

He added that if the steady rise in quarterly profits continued in the fourth quarter, a bit of luck, we should achieve double-digit growth in operating profits. He saw no risks which would prevent the previous dividend of DM14.50 from being maintained.

Explaining the bank's intention to take a 5 per cent stake in Postbank, due to be privatised, Mr Strutz said the aim was to sell more investment fund products through Postbank's distribution channels.

But this depended on a co-operation agreement between Postbank and Deutsche Post, the postal service, and on an acceptable valuation of Postbank.

He did not comment on estimates that a 5 per cent stake would be worth DM200m. Postbank has signed letters of intent with BHF-Bank, Volksbank and Deutsche Post.

This followed a hostile bid by Deutsche Bank, Swiss Reinsurance and Deutsche Post to buy

75 per cent of Postbank. Elaborating on the bank's results, Mr Strutz said the rise in profits compared with a 3.5 per cent decline at the halfway stage. Like other German banks, BHF-Bank has benefited from improved capital markets and the fact that this year's third quarter compared with a weak corresponding period in 1994.

Trading profits rose to DM38m in January-September from DM11m in the same period of last year. Mr Strutz said trading in foreign exchange and derivatives was especially successful. Interest income showed only a 1.3 per cent rise to DM540m. But commission income was 4 per cent

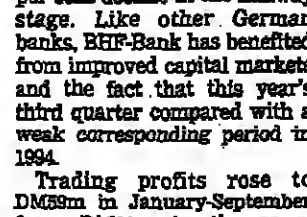
higher at DM230m, mostly stemming from commercial banking; fee income on securities business was below last year's level, although it has been picking up.

He also said the bank intended to structure its capital to improve earnings per share significantly. It could raise an extra DM1bn through subordinated loans, so there would be no need for a rights issue next year. Analysts have complained of the bank's reliance on rights issues and the dampening effect on earnings per share.

BHF-Bank has recently been concentrating more intensively on higher-margin advisory, asset management and trading

activities. As part of its drive to improve performance, Mr Strutz said, the bank would also cut central overhead and service costs, which total around DM200m.

Share price relative to the DAX index



Source: FT Data

## Hoechst overtakes Bayer in chart race

By William Cochrane

Yesterday was a big day for German chartists - if they were awake. With most of the country's financial markets either closed, or becalmed by the All Saints' holiday, a sleepy Frankfurt saw the Hoechst share price pass that of Bayer.

For years, Bayer mostly stood at a significant premium to Hoechst and BASF, reflecting its pharmaceutical content and the vulnerability of competitors to the bulk chemicals cycle. Mid-July saw Hoechst at DM318.80, BASF at DM319, and Bayer at DM371.

However, in May, Hoechst finalised the \$7.1bn takeover of Marion Merrell Dow, the US drug company, bringing the group's drugs content up in line with that of Bayer. Since then, analysts have been making powerful arguments in support of the group's diversification policy, and its share price has risen accordingly.

Yesterday, Hoechst put on a spurt in the afternoon, perhaps reflecting transatlantic influences; its share price rose another DM3 to DM377, finally topping Bayer's DM375.50. BASF was DM515 higher on the day but trailing in absolute terms at DM313.

Mr Andreas Schmidt, who analyses the sector for BZW in Frankfurt, reckons both Hoechst and Bayer will now see between 75 per cent and 80 per cent of their profits from the pharmaceuticals sector in a bad year for the bulk chemicals business. The proportion would fall to 50 or 55 per cent with bulk chemical profits at their peak, as they were in the first two quarters of this year.

Hoechst made off the third quarter results season for the "Big Three" next Monday. Results could be complicated by the parent's treatment of restructuring costs resulting

from the MMD acquisition; by the timing and split of the depreciation of goodwill which could come to DM50m; and by profits from divestments.

However, analysts expect an underlying profits gain of 35 per cent for July-September, unexciting, perhaps, after leaps of 94 per cent, and 88 per cent, in the first two quarters. But, as Mr Schmidt points out, the third quarter of 1994 had already seen a significant recovery, with pre-tax profits up from DM146m to DM606m.

These are the first EBRD projects to be syndicated with private banks and public institutions. It is also the first direct private sector financing in eastern Europe with a Spanish sponsor.

About \$11m of the EBRD loan will be invested in Bashkortostan-Kelme, the joint venture in southern Russia. The remaining \$7.5m will go to Ascom-Kelme in Moldova.

Both businesses plan to manufacture around 4m pairs of sport and leisure shoes, primarily for eastern Europe and the former Soviet Union markets, which have a strong potential.

The signing, hosted by Mr David Hexter, EBRD deputy vice-president, was also attended by representatives of the Instituto de Crédito Oficial of Spain and Banco Bilbao Vizcaya, which are co-financing the projects with an extra \$18.5m. Following this project the ICO hopes to encourage Spain's private banking sector

## Aga surges to SKr1.6bn

By Christopher Brown-Humes in Stockholm

Aga, the Swedish industrial group, saw profits after financial items jump 86 per cent to SKr1.6bn (\$240m) in the first nine months, backed by favourable business conditions in most of its markets.

Pre-tax profit was SKr2.2bn after including a SKr601m capital gain from the sale of a 7.3 per cent stake in Avesta Sheffield, the Anglo-Swedish stainless steel producer.

The figures were better than investors expected and the group's B shares rose 3 per cent to SKr82.

Mr Marcus Storch, chief executive, said the earnings trend was "very favourable"

although the rate of increase in the third quarter, when profits rose to SKr455m from SKr398m, was slower than earlier in the year.

Operations in the Nordic region and the rest of western Europe recorded healthy increases in earnings, but the trend in other markets was more uneven.

Operating income was SKr1.49bn, giving a margin of 14.8 per cent on sales of SKr10.07bn. In the same 1994 period, operating income amounted to SKr1.2bn for a margin of 13.0 per cent on sales of SKr9.2bn.

The group has two main operations: industrial gas and a power associate, Gullspång Kraft.

Gas operations contributed SKr1.45bn to income after financial items, up 88 per cent from last year, while Gullspång Kraft contributed SKr150m, a 13.6 per cent increase.

Investments, including air separation plants in the Nordic countries, Germany, the Netherlands, Russia, Mexico and Chile, rose more than 50 per cent to SKr1.83bn from SKr1.20bn.

The group is sticking to an earlier forecast that full-year income, excluding the capital gain, will be at least 30 per cent higher than last year's SKr1.72bn.

It said fourth-quarter profits should match last year's SKr43m.

## EBRD and Kelme in \$18m deal

By Piller Junco

The European Bank of Reconstruction and Development and Kelme, Spain's leading manufacturer of sports and leisure shoes, has signed two agreements worth \$18.5m to produce sport shoes in joint ventures in Moldova and Russia.

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to invest further in eastern Europe and the former Soviet Republics.

Mr José Quiles Navarro, president of Kelme, said he expected to create 1,900 new jobs in Moldova and the Republic of Bashkortostan. He hoped the companies would start making profits in three years.

The loan from Spanish banks was provided with export guarantee coverage by the Spanish export credit agency (CECSE). Cofides, the Spanish state agency specialising in the promotion of Spanish investments abroad, will refinance a subordinated loan to the Russian joint venture.

Under the plan, the companies' capital would be shared between partners on the basis of the value of assets contributed by Roussel Uclaf and Hoechst.

It said Hoechst and Roussel Uclaf were considering merging their animal health businesses in a subsidiary in which Hoechst would be the majority shareholder.

## Roussel Uclaf ahead at nine months and upbeat on year

Roussel Uclaf, the French pharmaceuticals group in which Hoechst of Germany owns a majority stake, has posted a 64 per cent increase in post-tax profits after nine months, from FF963m to FF1.04bn (\$212.5m), Welter reports from Paris. The results were flattered by exceptional sales. Extending these and on a like-for-like basis, profits rose

13 per cent from FF946m to FF957m.

Disposals meant turnover fell from FF13bn to FF11.9bn. On an ongoing basis, sales increased nearly 1 per cent from FF11.86bn to FF11.96bn. The group said it was confident about its full-year performance. But it warned the results would be affected by sensitivity to winter illness

rates and, to a lesser extent, currency fluctuations.

Operating income growth confirmed an improvement seen in the first half. Roussel Uclaf's share of income at Agrevo - an agrochemicals joint-venture between Roussel Uclaf, Hoechst and Schering - accounted for by the equity method, was lower at September 30 than at June 30, because

of the seasonal nature of Agrevo's sales.

The French group said it would continue to play a significant role in the global Hoechst Marion Roussel organisation after Hoechst's acquisition of Marion Merrell Dow of the US. It outlined a plan for the creation of Hoechst Marion Roussel joint ventures in most of Latin America and Europe.

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## Still searching for a cheaper, greener engine

Bosal believes that the Stirling concept is the answer, but success has proved elusive

Take two wealthy, publicity-shy Dutch automotive entrepreneurs, add the ideas of a 19th century Scottish clergyman and throw in the support of General Motors. The result is the development of an engine which could make cars more environmentally acceptable early next century.

A leading player in the project is Mr Karel Bos, the chairman of Bosal, one of the world's five biggest exhaust systems companies, with annual sales of DM875m (\$621m). The company is owned by a private trust with headquarters in Liechtenstein and divulges little financial information - not even who its shareholders are.

Mr Bos sees developing a mass-produced Stirling engine - devised in theory in 1816 by the Rev Robert Stirling - as a way of providing business for his company over the next 30 years. Stirling engines hold out the promise of better fuel consumption and lower pollution but their development has been plagued by technical problems.

In a rare interview, Mr Bos said building Stirling engines "fitted in very well" with Bosal's expertise in materials and electronics. "The days of the internal combustion engine are numbered on environmental grounds. They [Stirling engines] are a door into the future."

His father, also called Karel, founded the company in 1923 in the Netherlands. Its name is derived from Bos and the family's home town of Alkmaar where Mr Bos's predecessors were 17th century blacksmiths. Now based in Belgium, Bosal has 26 plants in 11 countries



Karel Bos: 'days of the internal combustion engine numbered'

with a strong position in Europe, Canada and South Africa - which is where it developed much of its early business.

Also backing the Stirling engine project is Mr Tom Kott, who set up and ran Iku, a low-key but highly successful maker of actuators for wing mirrors whose patented designs are used by most of the world's big car makers. In May this year Mr Kott sold Iku to Eaton, the US automotive group, for an undisclosed sum. Last year Iku, with plants in the Netherlands, the US and Poland, had sales of about \$9m.

Mr Kott and Mr Bos recently took control of Stirling Thermal Motors, a company in Ann Arbor, Michigan, which has been developing Stirling

engines for a decade - so far without succeeding in turning the theoretical ideas into practical, low cost machines.

While neither Mr Bos nor Mr Kott would say how much money they are putting into Stirling concept, the sum is believed to be several tens of millions of dollars. Mr Kott said he was "optimistic" the project would succeed. Stirling Thermal Motors employs more than 30 engineers and is thought to have a budget of more than \$5m a year.

A fan of Mr Bos is Mr Amory Lovins, one of the leading US alternative energy gurus and research director at the Rocky Mountain Institute, a Colorado-based think-tank examining environmental and transport issues. "He's an industrialist of strategic vision - of the kind

you don't meet very often," said Mr Lovins.

The Dutch entrepreneur's efforts have also won the praise of Mr Mounir Kamal, director in charge of electrical and propulsion systems at General Motors' research and development centre in Warren, Michigan.

He said the programme at Stirling Thermal Motors - in which a majority shareholding is owned jointly by Mr Kott and Bosal - had "substantially progressed the state of the art" in Stirling engines.

General Motors plans to use the ideas from the Stirling project, assuming they prove workable, in a \$1bn government-industry research programme unveiled by President Clinton in 1993 called Partnership for a New Generation of Vehicles.

Under this scheme, which also involves Chrysler and Ford and several government research laboratories, car constructors hope to use a combination of research in lightweight materials, propulsion systems and computerised control systems to produce a vehicle by 2002 that gets three times the mileage of today's cars without compromising performance or safety.

According to Mr Kamal, the development of mass-produced Stirling engines costing about \$2,000, roughly the cost of today's petrol engines, would require spending of "hundreds of millions of dollars" over the next decade. He rated the chances of their being developed "quite high", especially if anti-pollution laws are tightened.

Mr Bos sees Stirling systems as a logical development of

Bosal's business in exhaust systems, which account for about 70 per cent of sales with the rest covered by other automotive products. But Mr Bos - who speaks five languages and has a passion for aircraft, owning six of them - admits to the difficulties. The Stirling concept relies on shuttling gases between two cylinders, using the laws of thermodynamics to extract energy from the hot and cold parts of the engine. A range of power sources can be used, from diesel to solar energy, with the theoretical advantages of much higher efficiencies than in conventional petrol engines.

But putting theories into practice requires complicated and expensive technologies in areas such as electronics and materials engineering. While Stirling engines have been made for some specialised power uses, attempts at creating a cheap machine for everyday vehicles have proved unsuccessful.

In its mainstream business activities, Bosal - whose competitors include big US companies such as Arvin and Walker, part of Tenneco - has this year opened a \$12m plant in Lavonia, Georgia, its first in the US. It is planning to expand into China, eastern Europe and South America. Mr Bos said he was in detailed talks over setting up a plant in the former Yugoslavia until war broke out.

Mr Bos finds running the company easier "with no shareholders to charm". Beyond talking about overall sales, his policy is not to give out financial information, either now or in the future.

Peter Marsh

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Peter Marsh

All of these securities having been sold, this announcement appears as a matter of record only.

November 1995

3,000,000 Shares

athena neurosciences

Common Stock

600,000 Shares

PaineWebber International

Alex. Brown &amp; Sons International

Schroders

This tranche was offered outside the United States and Canada.

2,400,000 Shares

PaineWebber Incorporated

Alex. Brown &amp; Sons Incorporated

Schroder Wertheim &amp; Co.

Cowen &amp; Company

Merrill Lynch &amp; Co.

Needham &amp; Company, Inc.

Smith Barney Inc.

Moors &amp; Cabot, Inc.

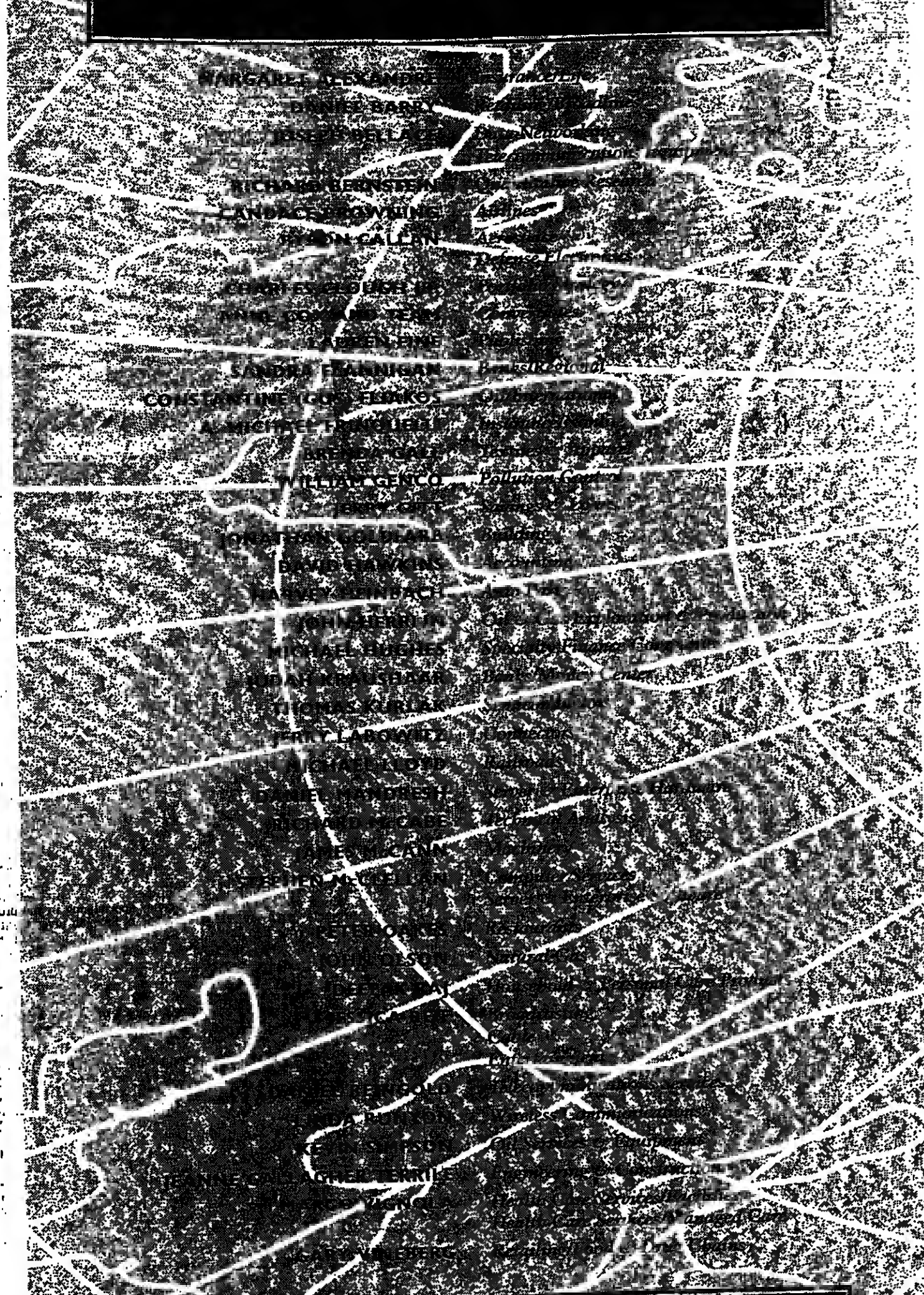
Punk, Ziegler &amp; Kooel

This tranche was offered in the United States.

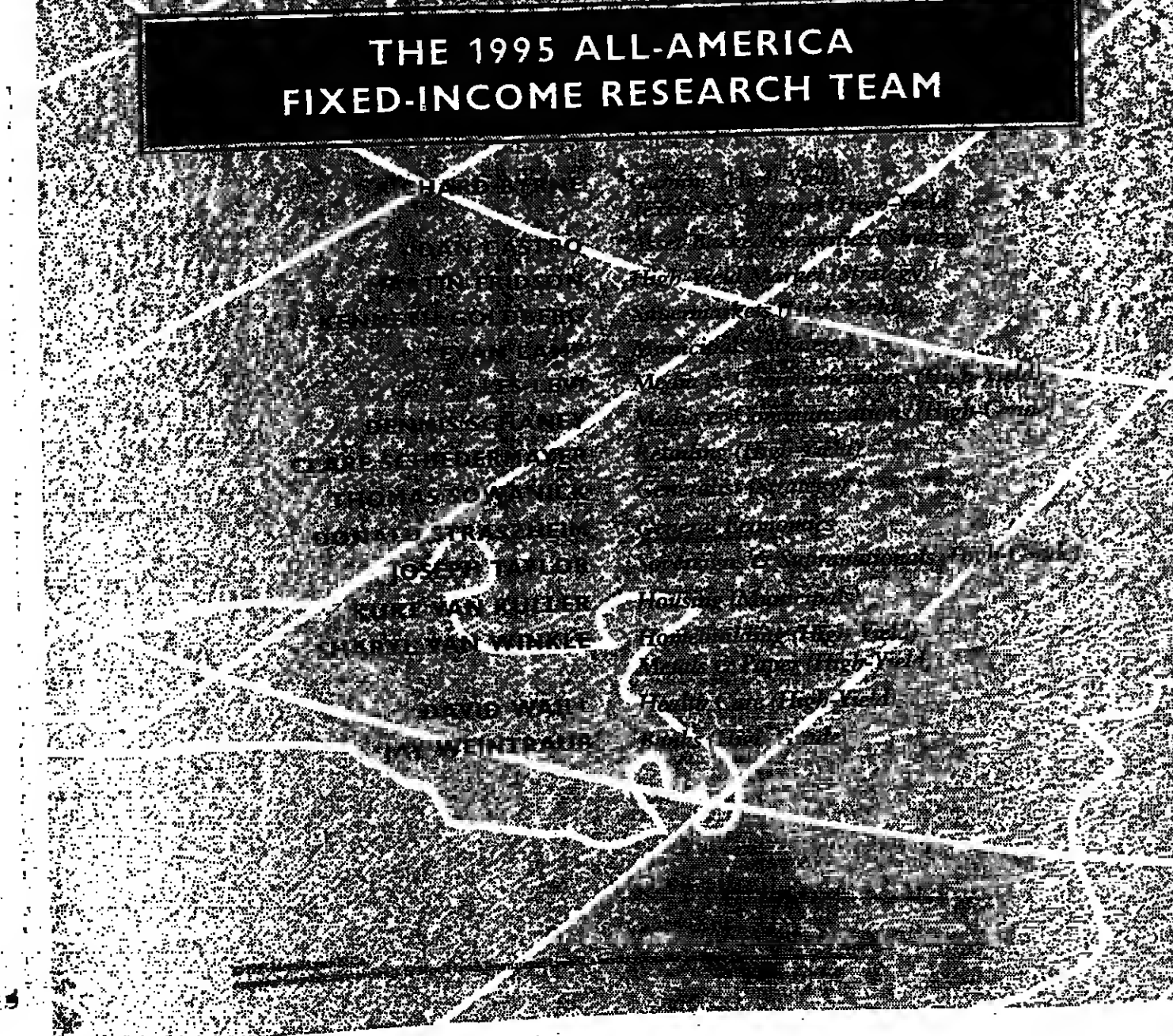


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THE 1995 ALL-AMERICA RESEARCH TEAM



THE 1995 ALL-AMERICA  
FIXED-INCOME RESEARCH TEAM



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market intelligence. And to the clients who  
acknowledged our efforts by voting our team of  
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## INTERNATIONAL COMPANIES AND FINANCE

## ASIA-PACIFIC NEWS DIGEST

## Mitsui, Siam Cement in petrochemical deal

Japan's Mitsui Petrochemical and Siam Cement, Thailand's largest industrial conglomerate, will invest \$112m to build a purified terephthalic acid (PTA) petrochemical plant on Thailand's eastern seaboard. The plant will have an annual capacity of 350,000 tonnes and will become operational in 1999. This is the second big PTA investment recently announced in Thailand. Last month, Taiwan's Tuntex said it would invest \$50m in a 900,000-tonne PTA plant to add to existing capacity of 350,000 tonnes.

Mitsui and Siam Cement will each hold 50 per cent of the new plant, which will link with another joint venture between the two companies producing polypropylene compounds. Polypropylene and PTA are raw materials for synthetic fibres used in Thailand's expanding textile industry.

Siam Cement said the investment would be undertaken by its Cement Thai Chemical subsidiary, which would finance its portion of the investment through a package of bank loans.

Ted Bardacke, Bangkok

## Indian investment bank ahead

The Industrial Credit and Investment Corporation of India, a leading investment bank, lifted net profit to Rs2.64bn (\$77m) in the half-year ended September 31, a 22 per cent increase on last year's six-month figure of Rs2.18bn. Total income, including capital gains, for the period was Rs14.57bn compared with Rs11.42bn in the corresponding period last year - an increase of 28 per cent.

Though fund-based activities continued to predominate in ICICI's income, non fund-based income registered an increase of 138 per cent, from Rs72m last year to Rs170m. The company said this was largely because of the growth in such areas as letters of credit commissions.

ICICI, which owns an investment bank in partnership with J.P. Morgan of the US, announced this week that it would tap US-based institutional buyers, including insurance companies, to raise \$200m. J.P. Morgan will be the lead manager for the issue.

Shiraz Siddha, New Delhi

## Matsushita in China TV venture

Matsushita Electric Industrial of Japan is setting up a joint venture to develop and produce colour television sets in China with local companies. The new company, Shandong Matsushita Television and Visual Co., will be established later this month. It will be capitalised at \$25m and owned half by Matsushita and half by three Chinese companies.

The new company, expected to start production in June 1996 with 470 workers, aims to make 100,000 21-inch, 25-inch and 29-inch TVs in the first year of operation. The three Chinese firms are Shandong TV Factory, a Chinese television manufacturer; Shandong Dong Chen Industrial Group, an investment firm which manages the development zone of Jinan; and Beijing Huasong Electronic Technology Development, an official investment company which is part of China's ministry of electronics industries.

Reuters, Tokyo

## Food groups face price-fix probe

Australia's Trade Practices Commission, the competition watchdog, has filed a statement of claim, alleging that Steggle's - a subsidiary of Goodman Fielder - and Ingham Enterprises were involved in organising price-fixing and market-sharing agreements for processed chicken products in South Australia in late 1992.

In a statement to the Australian Stock Exchange, Goodman, the country's largest food group, said it was taking the allegation "very seriously" and would assist the TPC "in any way we can". It noted, however, that the statement of claim related to meetings alleged to have occurred in South Australia only. Goodman's shares closed 1 cent higher at A\$1.33.

Nikki Tait, Sydney

## Coles Myer sales up

Coles Myer, Australia's largest retailer and the recent focus of institutional concern over corporate governance standards, yesterday announced an 8.3 per cent increase in first-quarter sales, for the 13 weeks to October 29, to A\$1.21bn.

The growth was particularly strong in the supermarkets division, which increased by 14.7 per cent over the first quarter of 1994-95, but there was a 2.2 per cent decline at the Myer Grace Bros department stores. The company does not give sales growth on a "same-store" basis, although it did say that comparable store sales for the supermarket division rose 12.4 per cent.

Nikki Tait

## Indonesian popular capitalism a minority pursuit

Aiming the Telkom issue at an emerging middle class was a gamble, writes Manuela Saragosa



Perched on plastic chairs at a makeshift collection point for Telkom share applications, an Indonesian family braves the Jakarta midday heat to discuss details of the domestic telecoms share offer.

Meanwhile, in the stuffy back rooms of the collection point - formerly air force headquarters - applications forms for Telkom's initial public offering are piled high on tables and chairs.

From here they are sent by selling agents to Citibank and Bank Dagang Nasional Indonesia, the two banks organising the collection points.

Previous international IPOs of state-owned Indonesian companies have focused on selling to the international investor, but this time the domestic investor is being given priority. Demand for the shares will therefore depend on the success of the publicity campaign.

The Jakarta collection point is one of nine dotted around

the Indonesian archipelago in an unprecedented campaign to muster support among a public that has little knowledge or experience of investing in the country's stock market.

Over the past month, Indonesians have been bombarded with advertisements on television and in the national press explaining the what, where and how of buying Telkom shares, and a 24-hour Telkom IPO hotline has been set up to help potential investors.

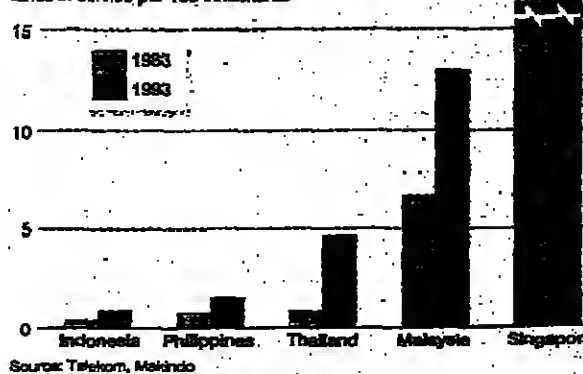
Each of the collection points is a workshop on investing in the stock market, with staff explaining everything from the details of the Telkom offer to how the stock market works.

Most of the questions are really basic, says an official from Bahana Securities, one of Telkom's domestic co-ordinators. "These are new investors. We have to make them understand that buying shares is not an automatic opportunity for capital gain."

Telkom is expected to raise between US\$2.5bn and US\$3.1bn when it lists 27.5 per cent of its enlarged share capital in London, New York and

## Asian telecommunications

Lines in service per 100 inhabitants



Source: Telkom, Helsinki

Indonesia later this month. According to the prospectus, 115bn shares will be offered on the domestic market, which is equivalent to almost half of the combined offer. In all, about 25bn shares will be on offer.

Slightly more than half of the 115bn domestic shares are being offered for open subscription to the Indonesian public; the remainder will be placed with government institutions. But, if domestic demand war-

rants it, 23bn shares can be clawed back from the international tranche.

The size of the domestic offer contrasts sharply with previous Indonesian privatisations. When Indosat, the satellite telecoms company, and Tambora Timah, the integrated tin mining company, listed 35 per cent of their enlarged share capital, less than one-third went to the domestic market. Some ana-

lysts believe Telkom's IPO may set a precedent.

To sweeten the offer, Indonesians are eligible for a 2.5 per cent discount on the shares and a one-for-10 bonus share redeemable after a year of holding the stock.

Only two days before the offer was due to close today, most of the 400 BDN and Citibank employees staffing the Jakarta collection point looked busy, but there was no sign of a mad scramble.

The two ambulances dispatched to the site in case excitement got out of hand stood idly by and the first aid centre was deserted.

Part of the challenge for Telkom is to convince individual Indonesians to part with a minimum of Rp1.4m (US\$630), in a country where average per capita annual income is about US\$800.

The minimum lot on the domestic market is 500 shares and Telkom shares have been priced at Rp2,800 each. According to the Bahana Securities official, the majority of applica-

tions have been for between 500 and 1,500 shares.

Analysts say most buyers probably belong to Indonesia's emerging middle class. Defining this section of the population is problematic because data collection in Indonesia is patchy.

One much-quoted source is Survey Research Indonesia, a local research company, which suggests about 16 per cent of Indonesia's adult population in the main urban centres may already be in the "middle income" or "upper income status", with disposable income of more than Rp600,000 a month. Other broad put the number at between 7 per cent and 8 per cent of Indonesia's 190m people.

That would mean up to 13m Indonesians may be able to afford to buy Telkom shares. But in a country where 35m people live below the poverty line, the offer is too expensive for the vast majority. "I would really like to buy the shares, but where would I get the money from?" says one Jakarta resident. "I'm just a taxi driver."

## Khazanah plans to sell 32% stake in Hicom

By Kieran Cooke in Kuala Lumpur

A change of ownership is under way at Hicom Holdings, one of Malaysia's biggest listed conglomerates which has functioned as the government's holding company for heavy industrial enterprises.

Under the terms of a complex deal now being finalised, Khazanah Holdings, the state investment company, will sell a 32 per cent stake in Hicom to Mega Consolidated, an unlisted concern.

Mega is ultimately controlled by Mr Yahaya Ahmad, a Malaysian millionaire who has been playing an increasingly prominent role in the country's fast-developing transportation sector.

The purchase price of the Hicom stake is believed to be in excess of M\$1.8bn (US\$705m). Company executives say the purchase will be financed by a loan arranged through Labuan, Malaysia's offshore financial centre.

Listed companies in the Hicom stable include Perusahaan Otomobil Nasional, the manufacturer of the Proton, Malaysia's national car. Hicom also controls Edaran Otomobil Nasional or Eon, a listed company which acts as distributor for the Proton. Eon

controls a bank and a car finance company.

Mr Yahaya's main listed company is Diversified Resources. The company assembles a variety of the Proton model as well as imported utility vehicles and buses.

Units of Diversified Resources also run the city bus service in Kuala Lumpur, manufacture car parts, assemble military vehicles and run the country's privatised vehicle inspection agency.

In addition, Mr Yahaya has a controlling stake in the Modenas company, a recently formed joint venture with Kawasaki of Japan aimed at manufacturing motorcycles in Malaysia.

Hicom, which was partially privatised last year, made a pre-tax profit of M\$314m in the year to March 1995. Earlier this week Dr Mahathir Mohamad, the prime minister, called in Hicom's existing management to explain the change of ownership.

A government official described the move as a further step in the country's privatisation process.

It is expected that Mr Yahaya will eventually bring Hicom under the umbrella of his listed Diversified Resources group.

## GMK takes legal action over 'Super Pit' deal

By Nikki Tait in Sydney

Gold Mines of Kalgoorlie, the listed goldminer in which Post-Gold, the goldmining arm of the Normandy group, holds a stake, is taking legal action against Homestake Gold of Australia over GMK's rights to output from the "Super Pit" mine in Kalgoorlie, Western Australia.

Homestake, which is also listed in Australia, is controlled by Homestake Mining, the US-based goldminer. The Super Pit is Australia's largest gold mine.

GMK said that under an agreement between the two companies, it was entitled to more than 50 per cent of the gold production sourced for a specific area of the operation - an entitlement known as the disproportionate share arrangement.

The amount was to be determined by Kalgoorlie Consolidated Gold Mines, which manages the joint venture.

However, GMK claims that disagreements "concerning a number of aspects of the disproportionate share arrangement" have arisen, and cites the treatment of capital costs for a recent upgrade at the mine as one area of dispute.

"This has now resulted in a gold entitlement total of 8,924 ounces... not being made available to the company," it alleges. GMK later revised the figure to 5,048 ounces.

"In addition, the company believes that the determinations under the disproportionate share arrangement to date also understate its entitlement," it added.

GMK claimed that negotiations with Homestake had been unproductive, prompting it to serve a Supreme Court of Western Australia writ on its partner yesterday.

There was no immediate response from Homestake.

## Taiwan chip stocks recover on back of TSMC advance

By Laura Tyson in Taipei

Prices of Taiwan semiconductor stocks recovered yesterday on the strength of third-quarter results from Taiwan Semiconductor Manufacturing, a bellwether for Taiwan's high-technology sector.

The stocks have been depressed by fears of overcapacity in the semiconductor industry. However, one analyst described the concerns as "overdone".

TSMC, regarded as the world's leading chip foundry, started work yesterday on a new plant, part of an expansion programme that is expected to boost capacity by 30 per cent a year.

The company earlier posted increased net profits of T\$10bn (US\$370m) in the first nine months of this year on sales of T\$30.1bn. In the same period last year net earnings were T\$8bn on turnover of T\$14.6bn. "The company forecasts full-year profits of T\$13.3bn on sales of T\$38.8bn and earnings up 20 per cent in 1995. TSMC shares rose T\$1 to 82.50 yesterday.

However, securities analysts warned that political and economic concerns might keep electronics shares at low levels despite solid growth.

The local economy appears to be slowing and crucial elections in December and March have dampened investor sentiment generally.

"The fundamentals are still firmly in place but that doesn't necessarily translate into strong share price performance," said Mr Matt Cleary, an analyst at Peregrine Securities.

Chip prices had softened recently but consumer-driven demand would continue to fuel growth and sustain product prices in the industry until at least 1997, analysts maintained.

At current levels, many of Taiwan's integrated circuit makers are trading at only four to five times 1995 projected earnings. "Even though these companies have performed so strongly over the last year, valuations are still roughly half those of US chip companies," said Mr Nate Emerson, a dealer at HG Asia Securities Taiwan.

Analysts are forecasting 53 per cent earnings growth in 1996 for United Micro Electronics - whose shares rose 50 cents to T\$66.50 yesterday. Meanwhile, Maseron, a maker of integrated circuits which went public in the first half of this year, has developed its own logic chips. It is also increasing production of flash memory, a product expected to be in rising demand.

HG Asia forecasts Maseron's profits will increase 90 per cent next year. The recently-listed Mosel-Vitec rose T\$2.50 to T\$88 yesterday. Mosel has done well by developing proprietary technology in niche products, especially high-performance D-RAM (dynamic random access memory) chips for specialised applications, such as graphics and CD-ROMs.

Mr Cleary said that fears of a price collapse in integrated circuits were overdone. He predicted that while prices might come down in 1997 as more capacity came on stream, "it will be a soft landing, not a crash. It will be a more stable industry in the 1990s than it was in the 1980s."

## Bombay Dyeing ahead sharply

By Shiraz Siddha in New Delhi

The Bombay Dyeing and Manufacturing Company, one of India's leading textiles and petrochemicals groups, saw profits more than double in the first half.

Net profit rose to Rs1.03bn (\$30.1m) for the six months ended September 1995, an increase of 133 per cent over last year's Rs440m. The latest half-year figure was also higher than the net profit of Rs960m for the entire year 1994-95.

Net sales increased by 80 per cent for the half year, from Rs4.53bn to Rs7.27bn.

Gross profits were up 95 per cent, from Rs722m to Rs1.41bn, while other income rose from Rs235m to Rs481m.

Bombay Dyeing's annualised earnings per share increased to Rs55.65, an increase of 85 per cent over last year's Rs30.03, on higher capital of Rs389.3m, compared with Rs235.6m.

The company said that a 29 per cent increase in the company's dimethyl terephthalate (DMT) production to 68,000 tonnes had contributed substantially to the improved results.

The group has doubled its annual DMT capacity to 120,000 tonnes, and is expected to increase production further to

160,000 tonnes by the end of the year.

An increased demand for this feedstock for polyester has improved the company's prospects.

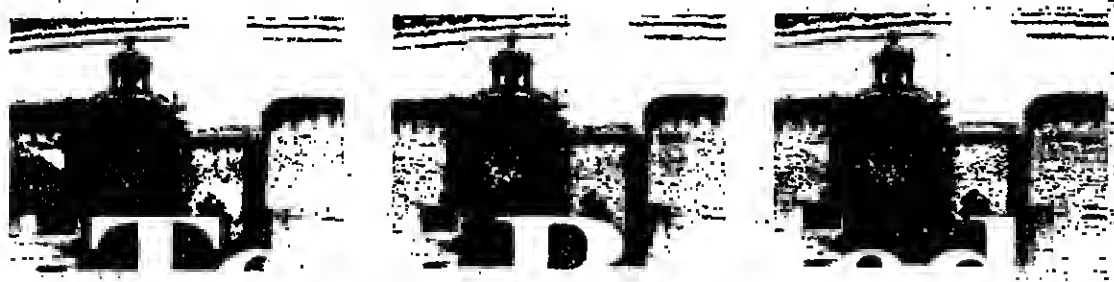
It added that textile sales had grown by 15 per cent over the previous year in the face of prices which had more than doubled.

However, margins had been squeezed because of the high price of cotton and other raw materials.

Cotton prices are expected to fall after a better crop this year, and this should help the company, which is best known for its bed-linen and home furnishings.

## KAS-ASSOCIATIE N.V.

BANKERS SINCE 1805



Global Custodian, the international magazine for institutional investment services, published in its 1995 fall issue the results of the annual Agent Bank Review.

Over 500 different institutions participated in the survey, which comprised questions covering the following categories:

Settlement Services - Safekeeping Services - Client Reporting - Account Administration - Ancillary Services - Technology - Commitment and Fees.

Kas-Associatie N.V. qualified as TOP RATED for the Netherlands in each category, thus prolonging the status it had achieved in 1994.

Amsterdam, November 2, 1995.

Kas-Associatie N.V.

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## Temple Court Mortgages (No. 1) PLC

£175,000,000

Mortgage Backed Floating Rate Notes 2029

The rate of interest for the period 31st October, 1995 to 31st January, 1996 has been fixed at 7.0625 per cent. per annum. Coupon No. 24 will therefore be payable on 31st January, 1996 at £177.53 per coupon.

S.G. Warburg & Co. Ltd.  
Agent Bank

## Mortgage Securities (No.3) PLC

£63,000,000 Class A1

£39,000,000 Class A2

£15,000,000 Class A3

£8,000,000 Class B

Mortgage backed notes due 2035

For the interest period 31 October 1995 to 31st January 1996 the notes will bear interest as follows:

Class A1: 7.5625% per annum

Class A2: 7.3625% per annum

Class A3: 7.4625% per annum

Class B: 7.8125% per annum

Interest payable 31 January 1996 will be as follows:

A1: £86.76 per £100,000 note

A2: £85.00 per £100,000 note

A3: £87.52 per £100,000 note

B: £93.80 per £100,000 note

Agent: Morgan Guaranty Trust Company

JPMorgan

## WOOLWICH

- Building Society -

£200,000,000

Floating rate notes

due 1998

Notice is hereby given that the notes will bear interest at 6.9125% per annum from 31 October 1995 to 31 January 1996. Interest payable on 31 January 1996 will amount to £173.76 per £100,000 note and £1,737.57 per £100,000 note.

Agent: Morgan Guaranty Trust Company

JPMorgan

## Mortgage Securities (No.1) PLC

£11,200,000

Class A

Mortgage Backed Floating Rate Notes due 2023

In accordance with the provisions of the notes, notice is hereby given that for the interest period 31st October, 1995 to 31st January, 1996 the notes will carry an interest rate of 7.1125% per annum.

Interest payable on the relevant interest payment date 31st January, 1996 will amount to £1,942.74 per £100,000 note.

Agent Bank: Bank of Scotland

## Mortgage Securities (No.1) PLC

£20,000,000

Class B

Mortgage Backed Floating Rate Notes due 2023

In accordance with the provisions of the notes, notice is hereby given that for the interest period 31st October, 1995 to 31st January, 1996 the notes will carry an interest rate of 7.3125% per annum.

Interest payable on the relevant interest payment date 31st January, 1996 will amount to £1,843.15 per £100,000 note.

Agent Bank: Bank of Scotland

## Islamic Banking

on Tuesday, November 28

To advertise in the survey please contact

Antony Carbonari

in London

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FT Surveys



## INTERNATIONAL COMPANIES AND FINANCE

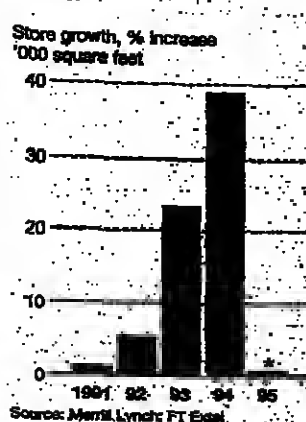
## Cifra ready for strong response to a retail recovery

Cifra, Mexico's fourth-biggest listed company, thought 1995 would be a boom year. So in 1994, the company, which runs supermarkets, cafeterias and department stores, expanded floor space by 38 per cent and its workforce by 17 per cent. It opened 64 new stores, almost all through a joint venture with Wal-Mart of the US begun three years earlier.

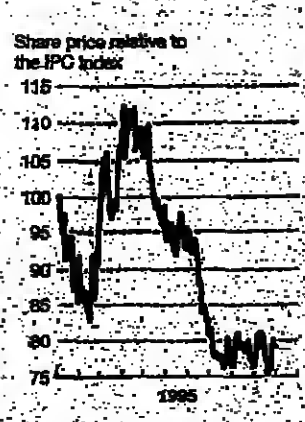
When Mexico's retail sector went into deep recession around April this year, sales at existing stores fell by almost a quarter. Cifra has also cut its workforce, although it did not release figures.

New stores, which had not yet established a firm clientele, suffered badly. Warehouse stores, full of imported non-food items, reported a 40 per cent decline in sales. VIPS, Cifra's restaurant chain, saw the average value of transactions fall.

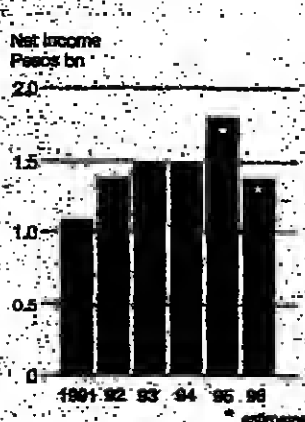
## Cifra



Cifra's net sales for the third quarter fell 20 per cent to 4.2bn pesos (\$588m) from a year earlier.



The rate of decline in the company's sales for the first nine months of 1995 was almost half as much again as



the fall registered by Comercial Mexicana, one of its main rivals, which has a higher proportion of essential food items. However, cost-cutting measures kept the fall in net income for the quarter, at 210m pesos, to 9 per cent.

grow at four, five per cent a year. We all know it can grow that much."

However, he believes Cifra will be strongly positioned when the economy recovers.

The company has a loyal customer base in its upmarket Superama stores, where sales have fallen less than in its other chains.

The 119 Wal-Mart stores in Mexico, half of which were built last year, provide a strong challenge, given Wal-Mart's premium name and expertise in maximising sales.

Among Cifra's rivals, only Grupo Gigante has a similar joint venture with a big international retailer, a much less developed partnership with Carrefour of France.

Cifra's other great advantage comes from its financial position. The company holds 1.5bn pesos in cash and temporary investments, and has no debt.

"While it is certainly not

what they teach you at business school, Cifra's financial policy has paid off," said Ms Maria Marron, an analyst at Salomon.

"The company doesn't have to worry about foreign exchange losses or sky-rocketing interest rates. They can withstand slicing their margins."

Mr Davis does not expect a significant upturn in the sector until the second quarter next year, but with about 60 projects that can be developed very quickly, he is confident Cifra will be able to respond when the recovery finally does come.

"We're in a position to take advantage of an upturn," he said. "We have the infrastructure, the sales. This is a fast-moving business but we can expand as rapidly as the market needs."

Daniel Dombey

## AMERICAS NEWS DIGEST

## Rockwell reports strong fourth term

Rockwell International, the US aerospace group, reported fourth-quarter earnings per share of 88 cents, a 17 per cent increase over the 75 cents in 1994's fourth quarter. Net income rose from \$165m to \$189m.

"Our excellent fourth-quarter results mark the eleventh consecutive quarter in which Rockwell has achieved double-digit earnings per share growth," said Mr Donald Beall, chairman and chief executive officer. Rockwell also announced an increase in its quarterly common stock dividend from 27 cents to 29 cents a share.

"For the year, commercial and international sales were up 30 per cent from last year and now comprise 72 per cent of total sales, compared with 65 per cent in 1994," Mr Beall said. "This change in the composition of Rockwell is even more dramatic compared with 10 years ago, when commercial and international sales accounted for only 39 per cent of total sales."

Cash flow from operations continued to be a strong point, rising 22 per cent to \$1.1bn for the year. *Reuters, California*

## Cigna takes \$774m charge

Cigna, the US insurance company which has angered some of its competitors with a plan to put its asbestos and environmental liabilities into a separate company, took a third-quarter charge of \$774m after tax against those liabilities. On Monday, three rival insurance companies complained to insurance regulators that Cigna's move could leave a company unable to meet its liabilities, requiring the industry and policyholders to pick up the bill.

In October, Cigna predicted the charge would be about \$750m. Cigna took further cost-cutting charges of \$75m against its property and casualty, and its employee life and health benefits businesses.

Before the charges, third-quarter results showed a recovery in the property and casualty division, from an operating loss of \$45m to a profit of \$66m. Group net income rose from \$151m to \$283m before the charges, or from \$2.08 to \$3.88 a share. *Maggie Urry, New York*

## Venezuelan paint group slips

Corimon, the Venezuelan paint company with interests in packaging and processed foods, announced second-quarter net income of Bs826m (\$3m), a 23 per cent fall on the comparative period. For the first six months, net income moved from a loss of Bs2.96bn to a profit of Bs964m.

Second-quarter sales rose 45 per cent to Bs18.5bn, partly because of the purchase in May of a majority stake in the US company Standard Brands Paint. About 45 per cent of sales now come from outside Venezuela. Net earnings per share for the first half were Bs0.83, compared with a loss per share of Bs2.96 previously.

Mr Philippe Erard, chairman, said recession in Venezuela, Argentina and Mexico had affected the group's performance, but added, "each of our subsidiary's operations are demonstrating positive progress". *Clare Gascoigne*

## Ex-Wellcome staff set up group

Seven former top staff at Wellcome, which earlier this year was taken over by Glaxo to form the world's biggest drugs group, have set up a drugs company in the US. Triangle Pharmaceuticals will be headed by Mr David Barry, Wellcome's former group director of research and development. Six other former Wellcome staff have joined Triangle, which is seeking to develop drugs for serious viral diseases and cancer. *Reuters, London*

## Shell Oil swept by sea of change

Group aims to improve its return on capital, writes Robert Corzine

Shell Oil, the US subsidiary of the Royal Dutch Shell group, is to expand co-operative ventures with other companies as part of its drive to improve its return on capital.

The company last month signed an agreement with Amoco, the Chicago-based oil group, to pool their onshore oil assets in west Texas in order to cut operating costs. Other co-operative ventures being considered would cover downstream activities, such as the distribution of refined products.

Executives say distribution has remained largely unchanged for decades, in spite of the success of new transportation techniques, such as "just-in-time" deliveries, in other industrial sectors.

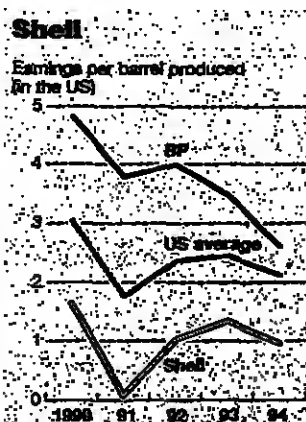
Shell Oil is also keen to unlock the equity it holds in large tracts of freehold property in California. The property portfolio includes prime commercial sites in southern California, including the La Brea district of central Los Angeles.

Shell Oil declines to speculate on the eventual value of the property holdings. But it says the company will consider taking part in a "risk-sharing joint venture" to develop the best sites.

The restructuring of operations at Shell Oil is seen as a possible model for the rest of the group, which is slowly implementing a plan to streamline its old national management structure.

Shell Oil says the recent deal with Amoco is one way in which it can implement the guidance from Mr Cor Herkströter, the group president in The Hague, to be "both big and small at the same time".

The aim is that the new unit will operate more like an independent oil company than the subsidiary of an oil major. It will, however, remain part of the "Shell family", able to



draw on the resources and expertise of the parent companies.

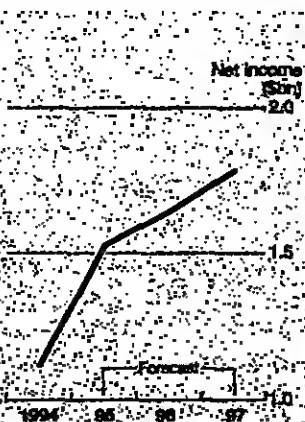
Such co-operative arrangements are seen as essential if the company is to boost its return on capital employed. Some analysts have estimated it at just over 7 per cent for 1995, a level well below the company's target of 12 per cent, which is also the current average for leading US and UK oil groups.

Shell Oil is the sixth largest US oil company by sales, which last year totalled \$21.6bn. With assets of \$26.3bn, it accounts for about a quarter of the group's capital.

Its performance will be a big factor in determining whether Shell as a whole can improve its worldwide rate of return over the next few years. The need to do so is one of the factors behind the current reorganisation of the non-US parts of the company.

Last month's deal with Amoco is seen as one way in which operating costs can be reduced in Shell's oil and gas production units. Onshore operating costs are \$6 a barrel, according to a recent study by NatWest Securities.

In the last four years, operating costs have fallen 28 per cent, but the decline, as the



report notes, was from the highest base in the US industry.

Offshore operating costs, however, average just \$2 a barrel. An important element of Shell's strategy is to emphasise production from its lower cost offshore assets over the next few years.

The company has a commanding position in the deep water areas of the Gulf of Mexico, where it has made relatively large oil and gas discoveries. The company has 800 exploration blocks. That is 30 per cent of the deep water leases issued so far by the federal government.

Anger, which, at 872 metres, is the deepest such platform in the Gulf of Mexico, illustrates the importance the company places in its deep water assets. Since it began producing last year, the field has performed well beyond the company's expectations.

"Some wells at Anger are producing 13,000 barrels a day," says Mr Rich Pattarozzi, head of the company's deep water division. "In the late 1980s, we thought 3,500 barrels was the maximum."

Operating costs at Anger are 61 cents a barrel, although costs over the life of the field will be higher. Mr Pattarozzi is



confident that deep water fields will account for more than half of Shell Oil's total production once fields under development are completed in the next few years.

Although Shell has financial partners in a number of deep water projects, it is one area in which it does not appear ready to reduce its direct role.

The desire to retain its own deep water expertise may be linked to the growing importance of the Shell group of deep water developments elsewhere in the world.

Shell Oil's most ambitious co-operative venture so far is with Pemex, the Mexican state oil company. The two companies have invested \$1bn (\$1.6bn) in upgrading part of Shell's Deep Park refinery near Houston to process large volumes of heavy Maya crude from Mexico.

The profitability of the joint venture has been undermined by the worst refining margins in more than 20 years. However, Shell views the long-term relationship with Pemex in more strategic terms. "Sometimes you do things not for the money," said one executive recently. "Our aim is for Shell to be Mexico's foreign partner of choice in energy."

## Cordis rejects bid by Johnson &amp; Johnson

Johnson & Johnson, the New Jersey-based healthcare group, yesterday said it would ask Cordis shareholders to replace the company's board of directors after Cordis rejected Johnson & Johnson's \$1.7bn takeover offer, agencies report from Miami and New Brunswick.

Directors at Cordis, the US maker of cardiology equipment, unanimously voted to reject unsolicited acquisition proposals by Johnson & Johnson to buy its shares at \$100 a share in cash, or through a stock-for-stock merger at \$105 a share.

It said the board believed that significant value would be created for stockholders through the current strategic plan by an independent Cordis. The board has authorised the management and the company's advisers to explore all strategic alternatives.

Johnson & Johnson said it continued to believe that its \$105 a share stock swap price was "fair and full". It did not refer to its alternative \$100 cash offer, launched a month ago. It said the actions Cordis had taken, including "adopting a clearly invalid poison pill

and amending its by-laws", were merely attempts to delay a takeover "and delay is not in the best interests of Cordis shareholders".

Johnson & Johnson has challenged in the courts an arrangement adopted by Cordis, known as a "dead hand" pill. Under this provision, which the company had revealed in a regulatory filing, only Cordis' current directors have the power to amend its anti-takeover defences, even if they are removed from office.

Under a bylaw adopted by the Cordis board on October 24, the board is required to be advised before any consent solicitations, after which the board will adopt a record date for the solicitations.

Johnson & Johnson said Cordis still had not set a date to determine shareholders entitled to vote through written consents, which it said should have been done within 10 days of the request on October 24. Once this date was set, Johnson & Johnson said it would approach shareholders for consent to remove the board.

St Jude Medical has refused to comment on speculation that it might bid for Cordis.



# ELF AQUITAINE AND ELECTRICITE DE FRANCE SIGN AGREEMENT ON INDUSTRIAL COOPERATION

Elf Aquitaine and Electricité de France (EDF) have signed an agreement to strengthen their industrial cooperation on an international level in order to realize joint projects in the production of electricity from hydrocarbons and through an industrial agreement in France.

## INTERNATIONAL DEVELOPMENT OF HYDROCARBON-ELECTRICITY PRODUCTION

Elf Aquitaine and Electricité de France plan to set up a joint-venture company (Société d'Etudes et de Réalisation) with equal financial interests, in charge of identifying and carrying out joint projects in the production of electricity from hydrocarbons.

The world electricity market is proving to be one of the most dynamic in the energy sector. Electricity production accounted for 35% of all primary energy consumption worldwide in 1993 and should reach 40% by the year 2010.

The evolution of energy and recent technological progress indicate that the use of hydrocarbons for the production of electric energy should experience increased development in the world.

Elf Aquitaine intends to take an active part in this new outlet for hydrocarbons in order to further develop its commercial portfolio and to increase the valorization of its production. It will thus improve the profitability of its exploration effort, notably in countries where the production of electricity is often the main outlet for hydrocarbons.

EDF would also like to broaden its portfolio of activities by participating in hydrocarbon-electricity projects outside France well suited to the energy and economic development of many countries.

As an endorsement of this international development and industrial cooperation agreement, EDF will enter into the capital of Elf Aquitaine by taking a 2% interest. This will be accomplished by the acquisition of approximately 3.4 million shares on the stock market.

EDF expects to remain a long term shareholder in Elf Aquitaine. A proposal will be made at Elf Aquitaine's General Shareholders' Meeting to elect a representative of EDF to its Board of Directors.

Mr Gilles Ménage, Chairman of EDF, said, "Elf Aquitaine and Electricité de France have an excellent expertise for carrying out complex projects and financing them in an international environment. Elf Aquitaine, a worldwide producer of hydrocarbons and EDF, the leading producer of electricity in the world, have formed a long term partnership today".

Mr Philippe Jaffre, Chairman and Chief Executive Officer of Elf Aquitaine stated that "by combining their assets and expertise through this agreement, Electricité de France and Elf Aquitaine will become a recognized, competitive player in an expanding market where there are many promising opportunities".

## INDUSTRIAL AGREEMENT IN FRANCE

Elf Aquitaine is one of EDF's largest customers in France through its chemicals subsidiary, Elf Atochem. The industrial agreement signed today covers all of Elf Atochem's electricity consumption. The following measures have been adopted:

- Elf Atochem will acquire, for approximately two billion French francs, the right to use EDF's electricity capacities corresponding to a third of its overall requirements. This will enable Elf Atochem to have access on a cost price basis (excluding depreciation and interest) for this part of its electricity needs.

- Elf Atochem and EDF have experimented with a new type of year to year contract for chlorine production sites at Fos, Jarrie, Lavera and Saint-Auban, since 1987. In line with this, the following has been agreed to for a period of 15 years:

- an adjustment of the present supply arrangement allowing EDF and Elf Atochem simultaneous overall optimization of chlorine and electricity production.
- new measures concerning hydroelectric rights\*\* held by Elf Atochem.

Thanks to these new measures which will allow EDF to reduce its production costs, Elf Atochem will obtain a better electricity price, thus reinforcing its competitiveness. Its chlorine production sites, for which electricity represents a major factor in production costs, will thus be strengthened in France.

(\*) Elf Aquitaine was privatized in early 1994.  
(\*\*) the rights held by Elf Atochem result from Article 8 of the Law of April 8, 1946, concerning electricity production

This announcement is neither an offer to purchase or exchange nor a solicitation of an offer to sell or exchange any securities. The Exchange Offer is made solely by means of the Offering Circular dated October 31, 1995. The Exchange Offer is not being made in, and no offer will not be accepted from, holders of the Company's 5% Convertible Subordinated Notes in any jurisdiction in which the making of the Exchange Offer or the acceptance thereof would be unlawful.

**Notice of Exchange Offer by**

**Sapiens International Corporation N.V.**

to exchange its

**10% Senior Subordinated Notes Due December 31, 1999**

and its

**10% Cumulative Convertible Preferred Stock**

for any and all of its issued and outstanding

**5% Convertible Subordinated Notes Due 2003**

Sapiens International Corporation N.V. (the "Company") is offering, upon the terms and conditions set forth in the Offering Circular dated October 31, 1995, to exchange (the "Exchange Offer") U.S. \$200 aggregate principal amount of the Company's 10% Senior Subordinated Notes Due December 31, 1999 and U.S. \$300 aggregate liquidation value of the Company's 10% Cumulative Convertible Preferred Stock for each U.S. \$1,000 in principal amount of the Company's 5% Convertible Subordinated Notes Due 2003.

THE EXCHANGE OFFER WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON FRIDAY, DECEMBER 1, 1995, UNLESS EXTENDED.

The Exchange Offer is conditioned on, among other things, not less than U.S. \$30,335,500 (approximately 65%) in aggregate principal amount of Old Notes being properly tendered and not withdrawn prior to the expiration of the Exchange Offer. Tenders of Old Notes pursuant to the Exchange Offer may be withdrawn at any time prior to the expiration of the Exchange Offer, and, unless accepted for exchange, may also be withdrawn after December 29, 1995.

The Offering Circular contains important information which should be read before any decision is made with respect to the Exchange Offer.

Offering Circulars have been mailed to holders of Old Notes. Questions regarding the Exchange Offer and requests for assistance or copies of the Offering Circular may be directed to the Exchange Agent.

**EXCHANGE AGENT FOR THE EXCHANGE OFFER:**

The Chase Manhattan Bank, N.A.  
Corporate Trust Office  
Woolgate House, Coleman Street, London EC2P 2HD, England  
Tel: +44-1202 342288

By: The Chase Manhattan Bank, N.A.  
London, Exchange Agent

November 2, 1995

**Residential Property Securities No. 2 PLC**

**£200,000,000**

**Mortgage Backed Floating Rate Notes 2018**

The rate of interest for the three month period 31st October, 1995 to 31st January, 1996 has been fixed at 7.1375 per cent. per annum. Coupon No. 30 will therefore be payable on 31st January, 1996 at £1,794.13 per coupon.

Aggregate interest charging balances of Mortgages redeemed during the previous interest period: £2,567,197.60

Aggregate interest charging balances of Mortgages redeemed as at 31st October, 1995: £222,896,463.55

The aggregate principal amount of Notes outstanding as at 31st October, 1995: £65,300,000.

**S.G. Warburg & Co. Ltd.**

Agent Bank

**RPS**

**Residential Property Securities No.4 PLC**

**£290,000,000**

**Class A1 Notes**

**£180,000,000**

**Class A2 Notes**

**Mortgage Backed Floating Rate Notes due 2023**

In accordance with the provisions of the Notes, interest is hereby given that for the three month period 31st October 1995 to 31st January 1996, the Class A1 Notes and Class A2 Notes will carry an interest rate of 6.9625% and 7.0375% per annum respectively. The interest payable per £100,000 Note will be £1,336.32 for the Class A1 Notes and £1,768.99 for the Class A2 Notes.

Banking



## COMPANY NEWS: UK

# GKN agrees £77m deals with Dana

By Christopher Price

GKN, the automotive components and defence engineering company, yesterday sold its axle business to Dana Corporation for £58m (\$92m) and bought stakes in three South American automotive groups from the US group for £19m.

Dana has paid £44m in cash and repaid a further £14m of debt for the axle division. It also assumed £15m of debt.

The business, which manufactures both light and heavy axles from plants in the UK and Italy, made pre-tax profits of £8m on sales of £115m last year. Net assets after deducting group and external debt were £18m at December 31 1995.

Mr Trevor Bonner, managing director of GKN Automotive and Agricultural Products, said the disposal and associated investments were in line with the company's long-term strategy.

"This was a good opportunity for us to sell the niche axle business at an excellent price and at the same time to strengthen our automotive driving presence in the important South American region. For both GKN and Dana these moves make good strategic sense."

The balance of the two deals, after goodwill and costs of disposal, would be an £8m credit for GKN in its 1995 accounts.

The three South American companies are involved in the manufacture and supply of constant velocity joints and driveshafts.

In Brazil, the purchase of a 9 per cent stake from Dana will increase GKN's holding in ATH-Albarus Transmissões Homocinéticas to 49 per cent. A similar deal will increase its holding in Danargen Argentina to the same. It is also purchasing 48 per cent of a Colombian automotive company.

## Whitbread achieves 9% rise to £156m

By Scheherazade Daneshkhu, Leisure Industries Correspondent

Whitbread, the brewing and leisure group, yesterday reported a 9 per cent rise in interim pre-tax profits, fuelled by a strong performance from its managed pubs, restaurants and leisure divisions.

However, its beer operations reported a profits increase of just 1.5 per cent, and the company attributed lower margins to "intense competition" in the take-home market and the cost of importing lager to meet high summer demand.

Whitbread said sales of its bottled Stella Artois premium beer were so high during the summer that it ran out of bottles and beer. It spent a net £1.5m importing Stella from Belgium and contracting out its bottle supplies.

Pre-tax profits in the six months to August 26 rose from £143.1m to £155.7m (\$246m).

Whitbread moved further away from its brewing origins in August and September with the acquisition of 16 Marriott hotels in the UK, David Lloyd Leisure, the tennis and health club business and CB Costa Bros Coffee, owners of the Costa Coffee shop franchises.

Sir Michael Angus, chairman, said Whitbread was alert to further acquisition opportunities.

It is expected to take a keen interest in Carlsberg-Tetley if Allied Domecq tries to sell its 50 per cent stake.

# Property clouds part, but only briefly

Despite a modest rally, it is too soon to call the turn on the sector, says Simon London

M EPC's £190m acquisition of the North American Property Unit Trust this week brought some relief from the gloom and despondency which has settled over property shares.

UK property values are falling, rents are static and the normal autumn flurry of deals has steadfastly failed to materialise. Property shares, which have been in decline relative to the wider stock market for nearly two years, have continued to fall behind.

After a dismal October, the sector has lost virtually all the gains won in the aftermath of sterling's exit from the European exchange rate mechanism in 1992. The discount to net assets at which property shares trade has widened to about 30 per cent, close to its long-run average.

Despite this week's modest rally sparked by MEPC's acquisition and shift of strategy, fund managers and analysts warn that it could still be too early to call the turn.

"Property shares are now getting down to more sensible levels. But they may have to fall further before they look distinctively cheap," says Mr Chris Turner, manager of TR Property Investment Trust.

Many investment banks con-

time to recommend that their clients remain underweight in property shares.

The big question facing the market is whether property values will recover or continue to fall in 1996. The answer depends on what happens to rents and commercial property yields.

Rents show little sign of rising even though the economy has been growing strongly for three years. Monthly figures from the Investment Property Databank show that rents stopped falling a year ago but have been static ever since.

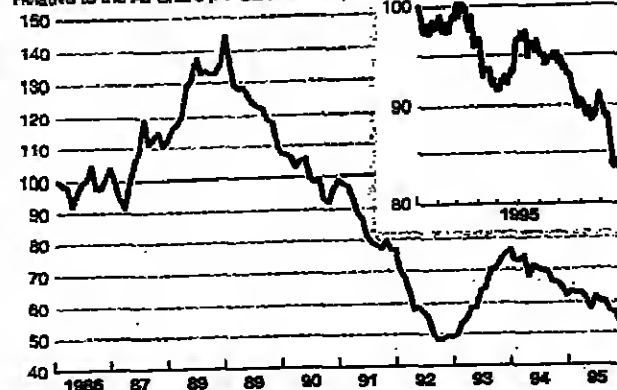
One reason is that the supply of properties increased rapidly in the 1980s and is only now being absorbed. Moreover, potential tenants are improving the efficiency of their operations, which reduces the amount of space they occupy.

"In 1993 we travelled hopefully and expected rental growth in 1994. Then 1994 was disappointing and we hoped for better things to come this year. With the economy now slowing, you have to wonder whether rental growth will come through in 1996," says Mr Turner.

Even if rents remain static, it is possible for property values to rise. But only if buyers are prepared to accept a lower

## Property: subsiding

Relative to the All-Share (FT-SE-A Index)



Source: FT Data



yield. This could happen if the outlook for rental growth suddenly improves - which seems unlikely - or if interest rates decline in the economy as a whole.

This is precisely what happened in 1992 and 1993 following the devaluation of sterling.

Long-dated gilt yields fell from 9.5 per cent to 6.3 per cent. Property yields fell in sympathy, driving property values and property shares higher.

As yet there is no sign of a repeat performance. Long gilt yields have been stuck at

about 8 per cent this year, apart from a flurry of excitement in the spring when gilts rallied strongly and dragged property shares out of the doldrums.

The danger for property shares is that yields might actually be too low and that values will have to fall further to reflect the limited prospects for rental growth.

If this assessment is right, property values will have to fall before equilibrium is reached between what buyers are willing to pay and sellers are willing to accept. The discount to net assets at which property shares now trade may not be as generous as it looks.

Not everyone agrees with this gloomy assessment. Although their growth forecasts have been cut, property analysts at S.B.C. Warburg still expect rents to rise by 5 per cent and capital values by 7 per cent in 1996.

But with the outlook for the property market so clouded, it will be difficult for property shares to outperform for long.

The main comfort for shareholders is that the dividends being paid by many large property companies are generous, which means that the shares themselves offer an attractive yield.

## Savoy sells Lancaster Hotel in Paris for £9.6m

The Savoy group of hotels has finally sold the Lancaster Hotel in Paris which has been on the market since the beginning of last year. The buyers are a group of investors led by Mr Stephane Andrien who is married to Mrs Grace Andrien.

the president of GLA International, which will manage the hotel.

The hotel, acquired by the Savoy in 1970, has been sold for £9.6m (\$15m), well below the original £11m asking price.


## RESULTS

	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current dividend (p)	Date of payment	Dividends corresponding dividend	Total for year	Total last year
BET	6 mths to Sep 30	95.05 (863.8)	55.1 (57.7)	5.3 (4.5)	1.4	Jan 8	1.2	4
Bellman	28 mths to Sep 9	31.7 (31.7)	4.08 (3.97)	2.6 (2.5)	0.85	Jan 3	0.85	2.6
Channel Commerce	6 mths to Sep 30	4.51 (4.45)	0.649 (0.5)	3.84 (2.88)	1.25	Jan 27	1	-
Dana Petroleum	6 mths to June 30	-	0.554 (0.008)	-	-	-	-	-
High Point	Yr to May 31	41.8 (42.2)	1.784 (1.442)	38.7 (11.5)	18	-	0.5	0.5
Sainsbury (A)	28 mths to Sep 24	7,049 (6,346)	451 (444.2)	16.74 (16.35)	3.4	Jan 17	3.2	11.7
Tamaris	6 mths to Sep 30	4.36 (1.88)	0.51 (0.12)	0.14 (0.05)	0.214	Dec 5	0.14	0.2
Whitbread	6 mths to Aug 26	1,327 (1,223)	158.1 (163.8)	24.16 (30.09)	5.75	Jan 22	5.35	20.2
Investment Trusts	NAV (p)	Attributable Earnings (£m)	EPS (p)	Current dividend (p)	Date of payment	Corresponding dividend	Total for year	Total last year
British Assets	Yr to Sep 30	114.57 (102.02)	15.5 (16.1)	4.81 (4.2)	1.2755	-	1.11	4.555
City of Oxford	6 mths to Sep 30	28.7 (30.1)	0.8 (0.86)	2.8 (2.71)	1.34	-	1.2	4.2
ICICI	6 mths to Sep 30	31.68 (30.74)	1.65 (1.12)	10.97 (7.9)	2	Dec 14	7	15
ICICI 'S'	6 mths to Sep 30	31.1 (29.24)	1.12 (1)	1.72 (1)	1.55	Dec 14	-	-

Dividends shown net. Earnings shown basic. Figures in brackets are for corresponding period. 10p increased capital. \$USM stock, 34p cash currency. 4p after exceptional charge. 10p reduced capital. 4p after exceptional credit. 4p after stock. 2p dividend gross. 2p comparative restated. 2p second interim, making 2.5p to date. 4p March 31 1995. 5p fourth quarterly dividend. 10p reduced capital.

This announcement appears as a matter of record only.

October 1995



## ScottishPower

£800,000,000

### Revolving Credit Facility

Arranged by


The Royal Bank of Scotland plc

Underwritten by

The Royal Bank of Scotland plc	Chemical Bank
Den Danske Bank	Rabobank
The Sanwa Bank, Limited	Union Bank of Switzerland

Provided by

Den Danske Bank	Rabobank
The Royal Bank of Scotland plc	The Sanwa Bank, Limited
Union Bank of Switzerland	Bank of Montreal
Banque Nationale de Paris	Bayerische Landesbank Girozentrale
Canadian Imperial Bank of Commerce	Clydesdale Bank PLC
Deutsche Morgan Grenfell	The Fuji Bank, Limited
ING Bank	Midland Bank plc
The Mitsubishi Bank, Limited	Morgan Guaranty Trust Company of New York
NatWest Markets	The Toronto-Dominion Bank
Westdeutsche Landesbank Girozentrale	Chemical Bank
ABN AMRO Bank N.V.	Banco Santander S.A.
The Bank of Nova Scotia	The Governor & Company of the Bank of Scotland
Banque Paribas	Barclays Bank PLC
Kredietbank N.V.	

 The Royal Bank of Scotland

## In the pursuit of a private life

Neil Buckley and Philip Coggan on the Roddicks' Body Shop plans

Richard Branson, Andrew Lloyd Webber, Alan Sugar, and Anita and Gordon Roddick: the roll-call of 1980s entrepreneurs who floated companies on the stock market then thought better of it is growing year by year.

Mr Branson, the bearded, balloon-piloting entrepreneur, floated his Virgin group in 1985, then bought it back in 1988. Mr Lloyd Webber, the composer behind hit musicals such as *Cats* and *Phantom of the Opera*, bought back his Really Useful Theatre Group in 1990, four years after floating.

Now the Roddicks' Body Shop, the cosmetics group whose entrepreneurial flair and "green" products and image made it one of the most successful retail flotations of the 1980s, is in discussions with banks over turning itself into a charitable trust.

Such a move would free the Roddicks to run the business in their own, idiosyncratic way. Rather than paying out millions of pounds in dividends to shareholders, they could use more of their profits to invest in the business and support environmental and humanitarian causes. This latest attempt to re-private a quoted company raises questions about whether flotation serves the best interests of entrepreneurial businesses, or stifles the initiative and spontaneity that allowed them to develop in the first place.

"When, as with Body Shop, you once had a majority of a company, but now whenever you want to do something you have to spend an inordinate amount of time explaining it to shareholders, you can imagine getting a bit fed up," says Mr Rod Roddick, retail analyst at SBC Warburg.

The motive for the Roddicks' proposed move is probably not financial. A buy-back could value the company at more than £340m, compared with the flotation value of £5m in 1984, requiring heavy borrowing by the Roddicks. They would hand over their own 24 per cent stake in the proposed charitable trust.

The reason behind the idea is a long-standing dissatisfaction with, and mistrust of, the City. Over the past five years, the feeling has become mutual.

Ms Roddick, founder and chief executive, has famously referred to bankers as "pinstriped dinosaurs", and admits "finance bores the pants off me". Her husband Gordon, the chairman, is a shy man who, while admired by some City observers for his acumen, does not enjoy giving presentations. Body Shop was an archet-



Getting a firmer grip: Anita and Gordon Roddick, attempting to escape the pinstriped dinosaurs

typical "cottage" industry, founded by Anita Roddick in Brighton in 1976 while her husband was fulfilling his ambition to ride on horseback across South America. It retained its close-knit, family ethos even after it was floated a decade ago and began its expansion into 45 countries, partly by franchising outlets rather than managing them itself.

"We ran the company in a very informal way, as if we were all one big extended family. The first managers' meeting was held in the front room of my mum's house and she cooked lasagne for everyone," Ms Roddick writes in her autobiography.

Ms Roddick admits she did not fully appreciate the implications of flotation, although her husband spent two years "understanding the nuances". But, she says, "We were both enamoured with the notion of seeing how far we could push the Body Shop idea".

Since flotation, however, Body Shop has faced increasing pressure from institutional investors to adopt a more "conventional" structure and business approach. It has belatedly acceded to that pressure, appointing a managing director, three new directors, and two non-executive directors.

But the uneasy relationship between the Roddicks and the City has been made frostier by several setbacks in the 1980s, which provoked sharp criticism in the financial world and knocked its share price back to less than half its peak level.

Analysts suggested yesterday, however, that Body Shop had discovered what several

similar companies found before it: that the stock market views unconventional entrepreneurs rather like parents confronted by a prospective son-in-law with a skinhead haircut and tattoos. They may be accepted for a while but, at the first hint of trouble, the market throws up its hands and says: "We told you so."

The result is often a share price that languishes well below what the entrepreneur feels is the true worth of the company. It is hardly surprising some are tempted to buy back control.

An early example was Mr (later Sir) James Goldsmith, who took Cavenham Foods private in 1977 via a bid from his French master company Générale Occidentale. The shares had suffered from the 1973-74 bear market and investors disliked his wheeling and dealing. His successful offer was worth only a little more than the then net asset value.

A stock market shift - the crash of October 1987 - also highlighted the quoted career of Mr Branson's Virgin group. But the buyback of Virgin also

reflected Mr Branson's frustration that his desire to make decisions in the long term interest of the business often conflicted with investors' wish for short-term profits and share price performance.

It is perhaps inevitable that entrepreneurs who have built up companies on the strength of their own personality and judgment resent the second-guessing and detailed questioning beloved by analysts and institutional investors.

Both Mr Branson and Mr Lloyd Webber, rather than their shareholders, had the last laugh. Mr Lloyd Webber floated his group for £36m in 1985, bought it back for £77.5m in 1990 and then sold 30 per cent to Polygram, the record company, for £78m a year later. Mr Branson floated Virgin for £242m at 140p a share and bought it back for the same share price, and then sold the music division to Thorn EMI for £510m.

In the short term, the reward for the Roddicks may not be so lucrative. But freedom from the "pinstriped dinosaurs" may be a big enough incentive.

Notice of Interest Rate To the Holders of

**The United Mexican States**

Collateralized Floating Rate Bonds Due 2019

NOTICE IS HEREBY GIVEN that the interest rates covering the interest period from November 2, 1995 to May 2, 1996 are detailed below:

Series Designation	Rate	Interest Amount	Payment Date
USD Discount Series B	6.75000 Per. P.A.	USD 94.50 Per USD 1,000	May 2, 1996
TRY Discount Series	1.50125 Per. P.A.	TRY 774.00 Per TRY 100,000	May 2, 1996

November 2, 1995

CITIBANK, N.A. Agent



## COMMODITIES AND AGRICULTURE

## MARKET REPORT

## Catalyst news hits prices of platinum group metals

News that a new motor exhaust catalyst would not initially use PLATINUM-group metals sent the price of the white precious metal to its lowest level since March 6 yesterday. At London's afternoon fixing it was set at \$405.50 a troy ounce, down \$4.50 on the day. An official of Engelhard Cor-

poration said the first version of its PremAir catalyst, due in 1998, would only remove some of the air and would not use platinum group metals. Future formulations would include platinum or other PGMs.

Last April, an announcement by Engelhard that the PremAir device would absorb pollutants

in the air, as well as in emissions, sent platinum soaring to around \$462 an ounce.

Other members of the precious metals complex felt only a modest fallout from the platinum liquidation. The GOLD price eased 45 cents to \$382.35 an ounce.

Compiled from Reuters

## CRA's Queensland lead-zinc project clears native title hurdle

By Nikki Tait in Sydney

Plans by CRA, the Australian mining group, to develop a \$750m (US\$570m) zinc-lead mine in northern Queensland, took a step forward yesterday when the federal court in Melbourne upheld a judgment by Australia's Native Title Tribunal that native title claims to some of the land involved had been extinguished by earlier grants of pastoral leases.

Local aboriginal groups, through the North Galangala Aboriginal Corporation, had put forward a claim for native title over about 247 hectares of land, encompassing the proposed mine site.

The issue of whether grants of pastoral leases - often made many years ago - extinguished native title was one of the areas left unclear when federal parliament passed Australia's landmark native title legislation in late 1993. In this case, Justice Robert French, president of the new National Native Title Tribunal, which was set up to handle native title claims, had upheld a registrar's ruling that no prima facie case existed for the land claim.

However, the case was referred to the federal court, and yesterday the full bench also upheld Justice French's decision, by a two to one

majority. The dissenting opinion, by Justice Donald Lee, argued that pastoral leases created by the crown in the 18th and early 19th centuries, were meant to be enjoyed alongside indigenous title.

The aboriginal groups could still apply for leave to lodge an appeal with the High Court, and CRA said that - aside from any appeal - there were some further hurdles that the Century project needed overcome before the proposed mine could be given, including the issuing of mining leases by the Queensland government. It added, however, that it hoped to have all matters resolved by the end of the year.

## UK calls for radical EU rice reform

By Deborah Hargreaves

The UK government is pressing for more radical reform of the European Union's rice regime than that proposed by the European Commission, Mr Tony Baldry, fisheries minister, told the House of Commons European Standing Committee yesterday.

The commission has proposed a cut in the intervention price for rice of 15 per cent but Mr Baldry said that was the very minimum the government would accept. "There is scope for a much bigger cut. Prices

could be reduced by 35 per cent without threatening the producers' viability," he said.

In addition, compensation for loss of income to farmers affected by the price cut, in the form of area aid payments, should not be total or permanent, Mr Baldry said. "We are pressing for partial and degressive payments."

He said the UK was likely to come up against opposition from the EU's main rice growers: Italy (which produces 61 per cent of the EU total), France, Spain, Portugal and Greece. Those countries

regarded the commission's proposals as draconian, he said.

Britain consumes 250,000 tonnes of rice a year and uses 25 per cent of the EU's harvest of japonica rice in the manufacture of breakfast cereals. The EU is being forced to liberalise its rice trade with third countries as a result of the General Agreement on Tariffs and Trade deal.

"The commission's proposals go some way towards reforming the rice regime, but the approach is too cautious and likely to prove inadequate in the long term," Mr Baldry said.

## World-Watch president warns of food scarcity

Lester Brown believes agriculture has reached the limit of fertiliser use, writes Laurie Morse

The world is facing politically destabilising food price increases as global grain stocks approach their lowest level in recent history and demand, from a richer and ever-growing world population, increases, says Mr Lester Brown, president of the Washington-based World-Watch Group.

Mr Brown and World-Watch have been addressing food and environmental issues for more than two decades. In an article on food security in the current issue of the group's magazine, the World-Watch president writes that agriculture has reached the limits of fertiliser use, and that ever-increasing applications of fertiliser can no longer be relied upon to produce food surpluses.

"The old formula of combining additional fertiliser with high yield varieties to expand steadily world food output is no longer working," he says, "and the availability of water to sustain agriculture is also diminishing."

He worries that growth in world grain production has stalled, and that yields from global fisheries are on decline, contributing to rising prices

for both grain and protein sources like fish and beef. Noting that rising food prices will hurt the world's poorest people, Mr Brown predicts a new global politics based on food scarcity, rather than surplus.

"Instead of a few exporting

real terms. After you've made something cheap over a long period of time, you would expect demand to go up and production to go down," says Mr D. Gale Johnson, a University of Chicago economist. Rising prices were making grain cultivation profitable again, Mr Johnson.

"China has more grain stocks than the rest of the world put together," he said. "Chinese farmers hold about 400m tons of grain, though you have to look at state statistics to find it."

Mr Robert Wisner, professor of economics and a grain mar-

ket specialist at Iowa State University, said that governments, rather than farmers, would have the biggest influence on rebuilding world grain stocks. "So much hinges on farm policies in the US and abroad," he said.

In the US, for example, more than 30m acres had been idled under a land conservation scheme, and new farm legislation being considered in Washington could bring about one third of the richest farmland enrolled in that scheme back into production. "Markets have a way of stimulating production," Wisner said.

He agreed with Mr Brown.

One large untapped area of potential food production that Mr Brown did not address, said Mr Wisner, was eastern Europe and the former Soviet Union. Farming techniques were decades behind that region, and "over the next ten to 15 years there is a huge potential for food production there."

Rebuilding the world's fisheries, the economist agreed, would be more difficult, because it required global intergovernmental regulation that would take years to accomplish. "Fisheries present a complex management issue," says Mr Brown. "Some things are best handled with regulation, and this is a matter of establishing and enforcing country (fishing) quotas."

## 'The old formula of combining additional fertiliser with high yield varieties to expand steadily world food output is no longer working'

countries competing for markets that were never quite large enough, more than a hundred importing countries will compete for supplies that never seem adequate," he says.

"Already, 1995 has witnessed the steepest rise in prices of wheat, rice, and corn (maize) seen in many years."

Although wholesale food prices are up and grain stocks are down, more mainstream agricultural economists do not share Mr Brown's assessment that the world is running short of food. "Real grain prices have been falling about 3 per cent per year since 1980 and are about 25 per cent lower now in

Johnston said, and agricultural experts expected governments to eliminate land idling requirements that had artificially constrained production in the US and the European Union. Not only would more land go into production next year, said Mr Johnson, but "the increase in technology improves."

Although Europe's grain mountains were gone, thanks largely to the politics of the GATT, and US stocks would be drawn down this year because weather trimmed the grain harvest, there was still plenty of grain in the world, said Mr

Johnson. "China has more grain stocks than the rest of the world put together," he said. "Chinese farmers hold about 400m tons of grain, though you have to look at state statistics to find it."

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ket specialist at Iowa State University, said that governments, rather than farmers, would have the biggest influence on rebuilding world grain stocks. "So much hinges on farm policies in the US and abroad," he said.

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He agreed with Mr Brown.

## LCE merger decision expected soon

By Deborah Hargreaves

The London Commodity Exchange will decide by the end of this month whether to press ahead with merger talks with the Chicago Board of Trade, or to pursue an alliance with New York's Coffee, Sugar and Cocoa Exchange.

Mr Robin Woodhead, the LCE chief executive, said the exchange was likely to decide on one of the merger options. There are dangers that the LCE could miss out on opportunities for expansion unless it has access to greater resources.

The exchange is looking to position itself as a centre for trading agricultural and soft commodity contracts with a view to a future liberalisation of the European Union farm

market. As part of this ambition, Mr Woodhead has signed a letter of intent with the Chicago Board of Trade to trade some of its agricultural futures contracts and to develop new European products for trading on both markets.

The exchange board will review the CBOT agreement in January when it will decide whether to go ahead with the joint venture. "We want to be able to create new volume on the contracts we trade, not just switch volume from Chicago," Mr Woodhead said.

The exchange is pursuing separate discussions with the London International Financial Futures Exchange and the International Petroleum Exchange for members as well as Exchange on a possible merger. The London exchanges

already have a joint clearing house and the practicalities of a merger would be easier to sort out than an alliance with New York.

Mr Woodhead said the exchange must consider how best to secure the long-term future of its existing contracts and look at increasing opportunities for members as well as helping them to reduce their cost base.

## 'Taxation threatening Thai diamond progress'

Taxation is threatening plans to develop Bangkok, which is emerging as one of the world's principal diamond-cutting centres, into an international hub for the diamond trade, an industry leader said yesterday, reports Reuters from Bangkok.

Unless Thai diamond trading was exempted from the 7 per cent value-added tax, China - supported by a huge emerging local market - could thwart Thai attempts to develop a world diamond trade centre, said Mr Chirakitti Tang, head of the Thai Diamond Manufacturers Association.

"We are building up a very strong industry in diamonds but to have a strong industry you need to have strong trading support," Mr Chirakitti said.

"There is a good chance Thailand could be one of the most important diamond-trading centres in the world. Antwerp is now the world diamond-trading centre; we could become the second Antwerp in this part of the world," he said.

From a cottage gem-cutting industry less than two decades ago, Thailand's diamond manufacturing sector has flourished in recent years, largely thanks to the quality of its cutting and rising labour costs in other centres.

## COMMODITIES PRICES

## BASE METALS

## LONDON METAL EXCHANGE

(Prices from Anonymous Metal Trading)

ALUMINIUM, 99.7% Purity (\$ per tonne)

Close 1688.7 1703.3

Previous 1688.7 1703.3

High/Low 1688.7 1703.3

AM Official 1688.7 1703.3

Open Int. 227.47

Open Int. 66.706

ALUMINIUM ALLOY (\$ per tonne)

Close 1400-10 1445-50

Previous 1385-95 1430-80

High/Low 1385-95 1430-80

AM Official 1390-2 1434-6

Open Int. 2,964

Open Int. 657

LEAD (\$ per tonne)

Close 703.5 695.5

Previous 695.5 695.5

High/Low 695.5 695.5

AM Official 695.5 695.5

Open Int. 33,161

Open Int. 6,628

NICKEL (\$ per tonne)

Close 8815-25 8820-30

Previous 8820-30 8820-30

High/Low 8820-30 8820-30

AM Official 8820-30 8820-30

Open Int. 43,572

Open Int. 13,851

TIN (\$ per tonne)

Close 6555-65 6555-65

Previous 6555-65 6555-65

High/Low 6555-65 6555-65

AM Official 6555-65 6555-65

Open Int. 16,337

Open Int. 6,288

25% special high grade (\$ per tonne)

Close 1037-38 1068-8

Previous 1037-38 1068-8

High/Low 1037-38 1068-8

AM Official 1037-38 1068-8

Open Int. 1,192

Open Int. 6,288

COPPER, grade A (\$ per tonne)

Close 2545-50 2745-7

Previous 2545-50 2745-7

High/Low 2545-50 2745-7

AM Official 2545-50 2745-7

Open Int. 183,616

Open Int. 106,058

1% LME clearing 1.5795

1% LME clearing 1.5795

1% LME clearing 1.5795

1% LME clearing 1.5795

## PRECIOUS METALS continued

GOLD COMEX (100 Troy oz; \$/troy oz)

Close 322.5 -4.5

Previous 322.5 -4.5

High/Low 322.5 -4.5

AM Official 322.5 -4.5

Open Int. 15,265

Open Int. 15,265

PLATINUM NYMEX (50 Troy oz; \$/troy oz)

Close 405.5 -1.5

Previous 405.5 -1.5

High/Low 405.5 -1.5

AM Official 405.5 -1.5

Open Int. 1,192

Open Int. 6,288

PALLADIUM NYMEX (100 Troy oz; \$/troy oz)

Close 137.50 -1.45

Previous 137.50 -1.45

High/Low 137.50 -1.45

AM Official 137.50 -1.45

Open Int. 1,192

Open Int. 6,288

SILVER COMEX (5,000 Troy oz; \$/troy oz)

Close 551.7 -4.5

Previous 551.7 -4.5

High/Low 551.7 -4.5

AM Official 551.7 -4.5

Open Int. 1,192

Open Int. 6,288

CRUDE OIL NYMEX (42,000 US gal; \$/barrel)

Close 17.54 -0.10

Previous 17.54 -0.10

High/Low 17.54 -0.10

AM Official 17.54 -0.10

Open Int. 1,192

Open Int. 6,288

HEATING OIL NYMEX (42,000 US gal; \$/barrel)

Close 17.54 -0.10

Previous 17.54 -0.10

High/Low 17.54 -0.10

AM Official 17.54 -0.10

Open Int. 1,192

Open Int. 6,288

1% LME clearing 1.5795

1% LME clearing 1.5795

1% LME clearing 1.5795

1% LME clearing 1.5795

1% LME clearing 1.5795

1% LME clearing 1.5795

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1% LME clearing 1.5795

1% LME clearing 1.5795

1% LME clearing 1.5795

1% LME clearing 1.5795

## GRAINS AND OIL SEEDS

WHEAT LCE (\$ per tonne)

Close 122.75 -0.25

Previous 122.75 -0.25

High/Low 122.75 -0.25

AM Official 122.75 -0.25

Open Int. 1,192

Open Int. 6,288

WHEAT COMEX (5,000 bushels; \$/bushel)

Close 45.50 -0.25

Previous 45.50 -0.25

High/Low 45.50 -0.25

AM Official 45.50 -0.25

Open Int. 1,192

Open Int. 6,288

BARLEY LCE (\$ per tonne)

Close 115.15 -1.25

Previous 115.15 -1.25

High/Low 115.15 -1.25

AM Official 115.15 -1.25

Open Int. 1,192

Open Int. 6,288

BOYABEAN LCE (\$5,000; \$/tonne)

Close 68.50 -0.25

Previous 68.50 -0.25

High/Low 68.50 -0.25

AM Official 68.50 -0.25

Open Int. 1,192

Open Int. 6,288

CRUDE OIL NYMEX (42,000 US gal; \$/barrel)

Close 17.54 -0.10

Previous 17.54 -0.10

High/Low 17.54 -0.10

AM Official 17.54 -0.10

Open Int. 1,192

Open Int. 6,288



## INTERNATIONAL CAPITAL MARKETS

## Treasuries rise on weak economic data

By Lisa Branstetter in New York and Richard Lapper in London

More signs of weakness in the manufacturing sector sent US Treasury bonds higher in early trading yesterday.

Near-midday, the benchmark 30-year bond was 1/8 higher at 108 1/2 to yield 6.264 per cent. At the short end of the maturity spectrum, the two-year note was up 1/4 at 100 1/2 to yield 5.491 per cent.

Bonds were mostly flat in early trading but they began climbing after the National Association of Purchasing Management put its index of manufacturing activity for October at 48.8 per cent, marking the third consecutive monthly decline in that indicator. Most economists had predicted an increase in activity to 50 per cent.

The index of leading economic indicators for September also slipped, falling 0.1 per cent when economists expected a 0.5 per cent increase.

The Federal Reserve's beige book - a report on the state of the economy prepared for Fed governors in advance of Open Market Committee meetings - also pointed toward a slowing economy. Yesterday's report

said that the economy continued to expand in September and October, but more slowly than in the summer.

The market paid little attention to figures showing September construction spending gained 1.2 per cent, stronger than the 0.5 per cent economists expected.

Bonds also benefited from a stronger dollar. In early trading the US currency moved higher against the yen and the D-Mark, changing hands at ¥103.03 and DM1.430 compared with ¥102.06 and DM1.402 late on Tuesday.

Canadian bond prices failed to advance following their outperformance earlier this week after the narrow victory of the federalist camp in Monday's referendum.

Yields on 10-year bonds rose and the yield spread over 10-year US Treasuries widened marginally to 162 basis points in the late afternoon in London.

Mr. Kirit Shah, international bond strategist at First Chicago, expects the paper to trade in a new range of between 145 and 175 basis points over Treasuries in the near-term.

Positive sentiment generated by the rise in US Treasuries spread to Europe, with the strength of the dollar giving an extra fillip to high-yielding markets.

With the French, Italian and Spanish markets all closed for the All Saints' holiday, the effect of the rally was amplified by thin trading volumes.

German bonds did well despite the easing of the D-Mark against the dollar. The market also shrugged off disappointment over a smaller than expected cut in one basis point in the Bundesbank's securities repurchase rate, to 4.02 per cent. Many analysts had been expecting a reduction of two basis points.

Bunds were helped by the buoyancy of the Treasury market, with the December 10-year bond future on Liffe breaching its previous contract high of 98.89 to close at 98.92, up 0.29. In the cash market there were reports of heavy buying of five-year paper by a domestic German institution.

Italian bond prices soared in thin volume on Liffe, largely reflecting the strength of the dollar and supported by the dollar's rally. The 10-year bond future closed at 103.25, up more than a point. Analysts said underlying uncertainties about next year's budget and continuing political worries would undermine the prospects for further growth, however.

Scandinavian bond markets were boosted by receding inflation expectations in Sweden and an unexpected cut in the Finnish one-month tender rate, the benchmark for the country's market interest rates.

The UK gilts market was initially supported by UK Purchasing Managers' Index figures, which confirmed a picture of rising manufacturing output and declining producer price pressure.

In the afternoon, the good performance by both the US and German markets spurred a sharp rise in prices, with the long gilt future closing at 107 1/2, up nearly half a point. In the cash market gilts outperformed bonds, with the 10-year yield spread falling by two basis points to 165 points.

Swedish bonds rallied following the early-morning publication of the Riksbank's latest inflation survey, with the yield spread over German bunds narrowing by six basis points to close at 271 points.

Mr. David Brown, economist at Bear Stearns International, expects the yield spread to narrow to 225 basis points within the next three to six months.

Investors should retain overweight Swedish bond exposure on a medium-term basis as we believe this market will be in the vanguard of European high-yielder performance into early 1996," he said.

The cut in short-term rates by the Bank of Finland from 5 to 4 per cent, to 5 per cent, followed the Finnish market, with yields on the nine-year benchmark - the 9.5 per cent due March 2004 - falling by 8 basis points to 7.77 per cent. The yield spread over 10-year bunds narrowed by four basis points to 138 points.

Mr. Brown said the inflation outlook means "there is scope for more Finnish spread compression to Germany, even though the spread has crashed dramatically over the last year, down from the August 1994 peak of 425 basis points".

NZ bonds top league table for October

By Antonia Sharpe

New Zealand's government bond market was the top performer in October, with a local currency return of 3.27 per cent, according to monthly data compiled by J.P. Morgan.

Positive news on inflation, which is expected to fall to 1.5 per cent by March from 2 per cent currently, encouraged investors to move out of short-term instruments into bonds to pick up yield.

In addition, the larger-than-expected rise in inflation in Australia and a pick-up in US growth, induced a move from US and Australian bond markets into New Zealand, J.P. Morgan said.

As a result, Australia was the poorest performer in October, with a monthly local currency return of minus 0.29 per cent.

Canada's bond market showed a return of 1.7 per cent after a month of investor apprehension caused by the Quebec referendum.

Having been almost flat on October 27, shortly before the poll, the market rallied following news of a "no" vote. Bond yields declined by 18 basis points in the 10-year area of the yield curve and by 36 points in the two-year area.

Italy was the poorest performer in Europe, due to political tension and fears that the budget would not be ratified by the year-end, but it still returned 1.18 per cent.

The strength of the krona, due to the improving trade balance and expectations that the currency would join the European exchange rate mechanism, led Swedish bonds to be the top performer in dollar terms, returning 5.85 per cent.

Japan's bond market was the poorest performer in dollar terms, with a return of minus 3.78 per cent.

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## CBOT brings in all-night trading

By Laurie Morse in Chicago

The Chicago Board of Trade's US Treasury bond and note futures and options contracts will be traded electronically through the night starting this evening, when the exchange launches the second phase of Project A, its computerised market.

The CBOT's financial futures and options contracts are currently listed on Project A screens for two hours each afternoon, between the close of regular day-time pit trading and the evening open-outcry session.

The expansion will allow global trading of the Treasury instruments, 30-day Federal funds futures and municipal bond futures and options from 10:30pm to 6am local time.

This will be the first time the CBOT's financial markets will be open almost around-the-clock since the exchange withdrew from Globex, the Reuters-owned screen-based futures market, more than a year ago.

There are 89 Project A terminals in operation. Most of them are in Chicago, with a few in New York.

Demand for round-the-clock trading in what are viewed as primarily domestic instruments has been slim, but exchange officials believe it is important to keep futures markets open and available for trade, particularly in times of financial crisis.

Mr. Patrick Arbor, CBOT chairman, said: "In a world where late-breaking news can have significant impact on the world's financial markets, it is crucial for our members, member firms and customers to have convenient and easy access to our... contracts. The increasingly global economy has fostered an environment where it is imperative to stay ahead of developments impacting the markets, even if those events occur in the late afternoon or evening hours."

The CBOT has promised to reduce screen-trading hours in favour of open-outcry trading when its partnership with Liffe goes into effect in the first quarter of next year. CBOT bond futures will be traded on Liffe when the CBOT is closed, while Liffe bond futures will be traded in Chicago outside London business hours.

## Mol indicates issue price

By Antonia Sharpe

The indicative price range on the global share offering of Mol, Hungary's national oil and gas company, is Ft1,100-1,450 (\$8.50-\$11) a share.

The Hungarian government is selling 24.6m shares, or about 25 per cent of the company's share capital, to foreign investors in the largest equity offering in the region to date.

The state currently owns about 88 per cent of the company with the rest of the shares traded over-the-counter in Hungary. Yesterday they were trading at about Ft1,850. The shares on offer to foreign investors will be global depository shares, which are equal to Mol's ordinary shares. Kleinwort Benson, Lazard and Merrill Lynch are joint global co-ordinators.

Mol has applied to have the GDS listed on the Budapest and Luxembourg exchanges. They will also be quoted on the New York Stock Exchange.

The book-building process will start on Monday. Following the global offering there will be a domestic offering of a minimum of 2.95m shares, or 3 per cent of the company, via Creditanstalt.

The domestic offering will start on December 4.

## Demand for Aegon perpetual allows increase in size

By Conner Middelmann

Among the three issues which emerged in yesterday's torpid dealings, a Ft100m offering of perpetual, subordinated bonds for Aegon, the Dutch insurer, attracted much interest.

## INTERNATIONAL BONDS

At the re-offer price of par, the bonds, which are callable every 10 years at par, yielded 122 basis points over the 10-year Dutch State Loan and 61 basis points over the 30-year DSL.

The deal is structured in such a way that if Aegon for some reason did not pay a dividend, it would not pay interest on its bonds; once dividend payments resumed, it would pay the accrued interest in arrears.

The issue met with such demand that it was increased from its initial Ft120m issue size, lead manager ABN Amro Hoare Govett said. The bonds performed strongly on their first day, with the spread narrowing sharply to 113 basis points.

Elsewhere, Canon Sales issued Sfr450m of bonds with equity warrants via SBC War-

## NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Yield %	Spread bps	Book runner
US \$3 COLARS							
Banco Safra	100	9.50%	98.725%	Nov 2003	0.475%	+325 (9.5%-9.17%)	Lehman Brothers Int.
SWISS FRANKS							
Canon Sales Co. (Sfr)	450	0.825	100.00	Nov 1998	1.625	-	SBC Warburg
GIULIARDS							
Aegon	200	7.70	100.00	Undated	0.75%	+61 (7.7%-7.3%)	ABN Amro Hoare Govett

Financial terms: non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager, at 11:58am. \*Withheld. \*\*With equity warrants. \*\*\*50m annual coupon. \*\*Fixed re-offer price, first shown at re-offer level. \*\*Callible and puttable on 10/1/97 at 99.75% and on 10/1/01 at 99.07%. \*\*Falling 71/100. \*\*Callible every 10 yrs at par. Interest payments conditional on dividend payments. Cumulative and subordinate debt.

burg - the largest such issue for a considerable time. "Recent deals have been in the Sfr50m to Sfr150m range," one dealer said.

After a prolonged lull in issu-

ance, the Japanese equity warrant sector has recently seen a pick-up in activity which is set to continue in the coming weeks, dealers say.

Brazil's Banco Safra issued

\$100m of eight-year bonds with put and call options after two and five years. The bonds were placed mainly with retail investors, lead manager Lehman Brothers said.

## WORLD BOND PRICES

## BENCHMARK GOVERNMENT BONDS

	Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia	7.500	07/05	91.9800	-0.180	6.74	6.67	6.62
Austria	6.875	05/01	95.0000	-0.00	6.84	6.84	6.82
Belgium	5.500	03/05	95.0000	-0.00	7.02	7.14	7.14
Canada	6.750	12/05	106.2500	-0.00	7.52	7.52	7.52
Denmark	6.000	12/04	95.1000	+0.300	7.77	7.85	8.01
France	7.750	04/00	0.0000	-0.00	8.94	8.82	8.82
Germany	7.250	10/05	0.0000	-0.00	7.44	7.51	7.51
Italy	6.500	10/07	95.0000	+0.300	6.50	6.46	6.57
Ireland	6.250	10/04	89.3000	+0.400	7.96	8.13	8.20
Japan	10.500	04/05	0.0000	-0.00	11.91	11.46	11.46
Netherlands	6.125	01/05	116.8500	-0.00	7.54	7.58	7.61
Portugal	4.000	09/04	113.1400	-0.040	2.76	2.87	2.86
Spain	10.150	01/05	0.0000	-0.00	10.31	11.01	11.01
Sweden	6.000	02/05	81.1020	+0.520	6.10	6.17	6.95
UK Gilt	6.000	12/00	102.24	+0.52	7.34	7.49	7.54
US Treasury	6.500	12/05	104.46	+0.52	7.39	7.54	7.59
EU (Frankfurt)	6.875	02/05	106.33	+0.32	6.97	6.92	6.92
ECU (Frankfurt)	7.500	04/05	0.0000	-0.00	7.88	7.78	7.78

London closing, New York end-of-day. Yield: Local market standard. \*Gross (including withholding tax at 12.5 per cent payable by investors).

Price: US, UK in \$/100, others in local.

Source: M&S International

US INTEREST RATES

Latest Treasury (90% and 90% Yields)

One month 5.28 Two year 5.51

Three month 5.47 Five year 5.99

Prime rate 5.75 Fed funds 5.50

90-day T-bill 5.50 10-year 5.95

30-year 6.27

Source: M&S International

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## BOND FUTURES OPTIONS (LFFE) DM250,000 points of 100%

Strike Price	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
9850	0.70	0.82	0.84	1.00	0.28	0.80	1.02	1.16	1.46	1.66	1.77	1.77	1.77
9700	0.42	0.43	0.82	0.78	0.50	1.11	1.30	1.48	1.66	1.77	1.77	1.77	1.77
9500	0.23	0.27	0.57	0.59	0.81	1.49	1.83	1.77	1.77	1.77	1.77	1.77	1.77

Est. vol. total, Call 1980 Puts 567, Previous day's open int., Call 17387 Puts 15530

Source: M&S International

Source: M&S International

Source: M&S International

Source: M&S International

Source: M&S International

Source: M&S International

Source: M&S International

Source: M&S International

Source: M&S International

Source: M&S International



## CURRENCIES AND MONEY

## MARKETS REPORT

## Dollar climbs as data lifts US Treasuries

By Graham Bowley

The dollar rallied on the foreign exchange yesterday despite signs of a slowdown in US economic growth.

An unexpected drop in the National Association of Purchasing Management's index of manufacturing activity last month appeared to increase the likelihood of a cut in US interest rates.

But the dollar shrugged off the data, pushing to a six-week high against the yen and strengthening against the D-mark.

Analysts said a sharp rise in the US Treasury bond market, which reacted positively to the fall in the NAPM index, was one of the main reasons for the dollar's strength.

But they said trading was dominated mainly by technical factors and, with most European markets closed for holidays, trading volumes were thin, which exaggerated price movements.

Analysts said that the dollar was also underpinned by options-related trade as dealers bought the currency to meet their option calls.

Some also pointed to lingering concerns over the health of the Japanese banking sector as a reason for the yen's poor performance. The yen was weak across the board, particularly versus sterling, the Swiss franc and the D-mark.

Mr Brian Marber, an independent foreign exchange consultant, thinks that the current rally in the dollar is likely to continue. He said the dollar could rise levels to around DM1.69 within 10 months.

The dollar closed in London at ¥102.0250, compared with ¥102.2450. Against the D-mark,

it finished at DM1.6164, from the previous close of DM1.6083.

The dollar's rise against the D-mark helped other European currencies make some gains against the German currency.

The Bundesbank allowed its short-term "repo" rate to fall by 1 basis point to 4.02 per cent, but this had little impact on the D-mark.

The French franc was buoyed by growing confidence in the French authorities' willingness to achieve significant cuts in the French budget deficit, analysts said.

Mr Malcolm Barr, international economist at Chemical Bank, said that the French franc was likely to strengthen in the near-term as more details of spending cuts emerged. But he said that in the longer term it would be undermined by the weakness of the French economy.

The Swedish krona strengthened against the D-mark as optimism about the strength of

the Swedish economy and about the country's favourable inflation outlook continued to grow.

Against the D-mark, the franc finished higher at FF247.40, from FF243.475 at the previous close. The Swedish krona finished at SKr4.715, from SKr4.715.

Starling benefited from the stronger dollar. It was also supported by signs of weaker price pressures in the manufacturing sector after the UK purchasing managers index showed that manufacturers' input prices increased last month at the slowest rate for almost two years.

"The pound gained on the back of the feeling that interest rates are not about to be cut and yet inflationary pressures are easing," said Mr Ian Harcourt, UK group chief economist at Societe Generale.

The pound ended higher against the D-mark at DM2.2858 from DM2.2221. Against the dollar, it finished at \$1.5785, from \$1.5775. The sterling trade-weighted exchange rate index closed at 842.1, up from 840.

The Canadian dollar weakened slightly in the aftermath of the referendum vote on Quebec's independence. It finished in London at C\$1.3465 against the US dollar, compared with

the previous close of C\$1.345.

The focus of attention in the currency markets is now tomorrow's US non-farm payroll figures, which are expected to show fewer jobs created in October. Some economists

however see little room for the Federal Reserve to cut interest rates after the strong growth seen in the third quarter of this year.

The Bundesbank council holds its regular monetary policy meeting today but few economists expect a cut in interest rates to follow.

The Bank of England provided \$315m assistance towards clearing a forecast money market shortage of around \$300m.

Other currencies

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## WORLD INTEREST RATES

November 1	Over night		Three months		Six months		One year		Long term		Repo rate	
	Rate	Change	Rate	Change	Rate	Change	Rate	Change	Rate	Change	Rate	Change
Belgium	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
France	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Germany	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Italy	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Japan	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Netherlands	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Spain	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Sweden	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Switzerland	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
UK	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
US	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Other	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0

November 1	Over night		Three months		Six months		One year		Long term		Repo rate	
	Rate	Change	Rate	Change	Rate	Change	Rate	Change	Rate	Change	Rate	Change
Belgium	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
France	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Germany	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Italy	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Japan	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Netherlands	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Spain	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Sweden	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Switzerland	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
UK	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
US	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Other	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0

November 1	Over night		Three months		Six months		One year		Long term		Repo rate	
	Rate	Change	Rate	Change	Rate	Change	Rate	Change	Rate	Change	Rate	Change
Belgium	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
France	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Germany	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Italy	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Japan	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Netherlands	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Spain	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Sweden	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Switzerland	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
UK	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
US	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Other	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0

November 1	Over night		Three months		Six months		One year		Long term		Repo rate	
	Rate	Change	Rate	Change	Rate	Change	Rate	Change	Rate	Change	Rate	Change
Belgium	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
France	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Germany	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Italy	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Japan	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Netherlands	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Spain	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Sweden	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Switzerland	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
UK	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
US	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Other	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0

November 1	Over night		Three months		Six months		One year		Long term		Repo rate	
	Rate	Change	Rate	Change	Rate	Change	Rate	Change	Rate	Change	Rate	Change
Belgium	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
France	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Germany	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Italy	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Japan	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Netherlands	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Spain	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Sweden	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Switzerland	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
UK	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
US	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Other	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0

November 1	Over night		Three months		Six months		One year		Long term		Repo rate	
	Rate	Change	Rate	Change	Rate	Change	Rate	Change	Rate	Change	Rate	Change
Belgium	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
France	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Germany	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Italy	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Japan	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Netherlands	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Spain	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Sweden	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Switzerland	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
UK	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
US	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0
Other	3.5	0.0	4.0	0.0	4.5	0.0	5.0	0.0	5.5	0.0	5.5	0.0

THREE MONTH EURODLRA FUTURES (LFF3) L1000m points of 100%										
	Open	Sett price	Change	High	Low	Est. vol	Open int			
Dec	89.47	88.50	-0.14	89.81	88.38	6508	27582			
Mar	89.73	89.54	+0.23	89.85	89.60	1889	27813			
Jun	89.95	90.02	+0.15	90.02	89.95	66	14806			
Sep		90.07	-0.15			0	8022			



## LONDON SHARE SERVICE

## BANKS, MERCHANT

Company	Price	Change
Barclays Bank	125.00	+0.50
HSBC Bank	115.00	+0.25
London City	105.00	+0.10
Midland Bank	95.00	+0.15
NatWest Bank	85.00	+0.20
Paragon Bank	75.00	+0.10
Royal Bank	65.00	+0.15
Santander Bank	55.00	+0.10
TSB Bank	45.00	+0.15
Yorkshire Bank	35.00	+0.10

## BANKS, RETAIL

Company	Price	Change
Bank of Scotland	120.00	+0.50
Bank of Ireland	110.00	+0.25
Bank of Wales	100.00	+0.10
Bank of Cyprus	90.00	+0.15
Bank of Greece	80.00	+0.20
Bank of Spain	70.00	+0.10
Bank of Portugal	60.00	+0.15
Bank of France	50.00	+0.10
Bank of Italy	40.00	+0.15
Bank of Germany	30.00	+0.10

## BREWERIES

Company	Price	Change
Adnams	120.00	+0.50
Beck's	110.00	+0.25
Carlsberg	100.00	+0.10
Heineken	90.00	+0.15
Kaiser Brewery	80.00	+0.20
Miller	70.00	+0.10
Paulaner	60.00	+0.15
Pilsener	50.00	+0.10
Stout	40.00	+0.15
Tottenham	30.00	+0.10

## BUILDING &amp; CONSTRUCTION

Company	Price	Change
Arrol-Johnston	120.00	+0.50
Balfour Beatty	110.00	+0.25
Bechtel	100.00	+0.10
Booth	90.00	+0.15
Canal	80.00	+0.20
Chambers	70.00	+0.10
Combe	60.00	+0.15
Concorde	50.00	+0.10
De La Rue	40.00	+0.15
Edwards	30.00	+0.10

## BUILDING MATS. &amp; MERCHANTS

Company	Price	Change
Arrol-Johnston	120.00	+0.50
Balfour Beatty	110.00	+0.25
Bechtel	100.00	+0.10
Booth	90.00	+0.15
Canal	80.00	+0.20
Chambers	70.00	+0.10
Combe	60.00	+0.15
Concorde	50.00	+0.10
De La Rue	40.00	+0.15
Edwards	30.00	+0.10

## CHEMICALS

Company	Price	Change
Adnams	120.00	+0.50
Beck's	110.00	+0.25
Carlsberg	100.00	+0.10
Heineken	90.00	+0.15
Kaiser Brewery	80.00	+0.20
Miller	70.00	+0.10
Paulaner	60.00	+0.15
Pilsener	50.00	+0.10
Stout	40.00	+0.15
Tottenham	30.00	+0.10

## DISTRIBUTORS

Company	Price	Change
Adnams	120.00	+0.50
Beck's	110.00	+0.25
Carlsberg	100.00	+0.10
Heineken	90.00	+0.15
Kaiser Brewery	80.00	+0.20
Miller	70.00	+0.10
Paulaner	60.00	+0.15
Pilsener	50.00	+0.10
Stout	40.00	+0.15
Tottenham	30.00	+0.10

## DIVERSIFIED INDUSTRIALS

Company	Price	Change
Adnams	120.00	+0.50
Beck's	110.00	+0.25
Carlsberg	100.00	+0.10
Heineken	90.00	+0.15
Kaiser Brewery	80.00	+0.20
Miller	70.00	+0.10
Paulaner	60.00	+0.15
Pilsener	50.00	+0.10
Stout	40.00	+0.15
Tottenham	30.00	+0.10

## ELECTRICITY

Company	Price	Change
Adnams	120.00	+0.50
Beck's	110.00	+0.25
Carlsberg	100.00	+0.10
Heineken	90.00	+0.15
Kaiser Brewery	80.00	+0.20
Miller	70.00	+0.10
Paulaner	60.00	+0.15
Pilsener	50.00	+0.10
Stout	40.00	+0.15
Tottenham	30.00	+0.10

## ELECTRONIC &amp; ELECTRICAL EQPT - Cont.

Company	Price	Change
Adnams	120.00	+0.50
Beck's	110.00	+0.25
Carlsberg	100.00	+0.10
Heineken	90.00	+0.15
Kaiser Brewery	80.00	+0.20
Miller	70.00	+0.10
Paulaner	60.00	+0.15
Pilsener	50.00	+0.10
Stout	40.00	+0.15
Tottenham	30.00	+0.10

## ENGINEERING

Company	Price	Change
Adnams	120.00	+0.50
Beck's	110.00	+0.25
Carlsberg	100.00	+0.10
Heineken	90.00	+0.15
Kaiser Brewery	80.00	+0.20
Miller	70.00	+0.10
Paulaner	60.00	+0.15
Pilsener	50.00	+0.10
Stout	40.00	+0.15
Tottenham	30.00	+0.10

## EXTRACTIVE INDUSTRIES - Cont.

Company	Price	Change
Adnams	120.00	+0.50
Beck's	110.00	+0.25
Carlsberg	100.00	+0.10
Heineken	90.00	+0.15
Kaiser Brewery	80.00	+0.20
Miller	70.00	+0.10
Paulaner	60.00	+0.15
Pilsener	50.00	+0.10
Stout	40.00	+0.15
Tottenham	30.00	+0.10

## ENGINEERING, VEHICLES

Company	Price	Change
Adnams	120.00	+0.50
Beck's	110.00	+0.25
Carlsberg	100.00	+0.10
Heineken	90.00	+0.15
Kaiser Brewery	80.00	+0.20
Miller	70.00	+0.10
Paulaner	60.00	+0.15
Pilsener	50.00	+0.10
Stout	40.00	+0.15
Tottenham	30.00	+0.10

## EXTRACTIVE INDUSTRIES

Company	Price	Change
Adnams	120.00	+0.50
Beck's	110.00	+0.25
Carlsberg	100.00	+0.10
Heineken	90.00	+0.15
Kaiser Brewery	80.00	+0.20
Miller	70.00	+0.10
Paulaner	60.00	+0.15
Pilsener	50.00	+0.10
Stout	40.00	+0.15
Tottenham	30.00	+0.10

## EXTRACTIVE INDUSTRIES - Cont.

Company	Price	Change
Adnams	120.00	+0.50
Beck's	110.00	+0.25
Carlsberg	100.00	+0.10
Heineken	90.00	+0.15
Kaiser Brewery	80.00	+0.20
Miller	70.00	+0.10
Paulaner	60.00	+0.15
Pilsener	50.00	+0.10
Stout	40.00	+0.15
Tottenham	30.00	+0.10

## ENGINEERING

Company	Price	Change
Adnams	120.00	+0.50
Beck's	110.00	+0.25
Carlsberg	100.00	+0.10
Heineken	90.00	+0.15
Kaiser Brewery	80.00	+0.20
Miller	70.00	+0.10
Paulaner	60.00	+0.15
Pilsener	50.00	+0.10
Stout	40.00	+0.15
Tottenham	30.00	+0.10

## EXTRACTIVE INDUSTRIES - Cont.

Company	Price	Change
Adnams	120.00	+0.50
Beck's	110.00	+0.25
Carlsberg	100.00	+0.10
Heineken	90.00	+0.15
Kaiser Brewery	80.00	+0.20
Miller	70.00	+0.10
Paulaner	60.00	+0.15
Pilsener	50.00	+0.10
Stout	40.00	+0.15
Tottenham	30.00	+0.10

## ENGINEERING, VEHICLES

Company	Price	Change
Adnams	120.00	+0.50
Beck's	110.00	+0.25
Carlsberg	100.00	+0.10
Heineken	90.00	+0.15
Kaiser Brewery	80.00	+0.20
Miller	70.00	+0.10
Paulaner	60.00	+0.15
Pilsener	50.00	+0.10
Stout	40.00	+0.15
Tottenham	30.00	+0.10

## EXTRACTIVE INDUSTRIES

Company	Price	Change
Adnams	120.00	+0.50
Beck's	110.00	+0.25
Carlsberg	100.00	+0.10
Heineken	90.00	+0.15
Kaiser Brewery	80.00	+0.20
Miller	70.00	+0.10
Paulaner	60.00	+0.15
Pilsener	50.00	+0.10
Stout	40.00	+0.15
Tottenham	30.00	+0.10

## HOUSEHOLD GOODS - Cont.

Company	Price	Change
Adnams	120.00	+0.50
Beck's	110.00	+0.25
Carlsberg	100.00	+0.10
Heineken	90.00	+0.15
Kaiser Brewery	80.00	+0.20
Miller	70.00	+0.10
Paulaner	60.00	+0.15
Pilsener	50.00	+0.10
Stout	40.00	+0.15
Tottenham	30.00	+0.10

## INSURANCE

Company	Price	Change
Adnams	120.00	+0.50
Beck's	110.00	+0.25
Carlsberg	100.00	+0.10
Heineken	90.00	+0.15
Kaiser Brewery	80.00	+0.20
Miller	70.00	+0.10
Paulaner	60.00	+0.15
Pilsener	50.00	+0.10
Stout	40.00	+0.15
Tottenham	30.00	+0.10

## INVESTMENT TRUSTS

Company	Price	Change
Adnams	120.00	+0.50
Beck's	110.00	+0.25
Carlsberg	100.00	+0.10
Heineken	90.00	+0.15
Kaiser Brewery	80.00	+0.20
Miller	70.00	+0.10
Paulaner	60.00	+0.15
Pilsener	50.00	+0.10
Stout	40.00	+0.15
Tottenham	30.00	+0.10

## INVESTMENT TRUSTS

Company	Price	Change
Adnams	120.00	+0.50
Beck's	110.00	+0.25
Carlsberg	100.00	+0.10
Heineken	90.00	+0.15
Kaiser Brewery	80.00	+0.20
Miller	70.00	+0.10
Paulaner	60.00	+0.15
Pilsener	50.00	+0.10
Stout	40.00	+0.15
Tottenham	30.00	+0.10

## INVESTMENT TRUSTS

Company	Price	Change
Adnams	120.00	+0.50
Beck's	110.00	+0.25
Carlsberg	100.00	+0.10
Heineken	90.00	+0.15
Kaiser Brewery	80.00	+0.20
Miller	70.00	+0.10
Paulaner	60.00	+0.15
Pilsener	50.00	+0.10
Stout	40.00	+0.15
Tottenham	30.00	+0.10

## INVESTMENT TRUSTS - Cont.

Company	Price	Change
Adnams	120.00	+0.50
Beck's	110.00	+0.25
Carlsberg	100.00	+0.10
Heineken	90.00	+0.15
Kaiser Brewery	80.00	+0.20
Miller	70.00	+0.10
Paulaner	60.00	+0.15
Pilsener	50.00	+0.10
Stout	40.00	+0.15
Tottenham	30.00	+0.10

## INVESTMENT TRUSTS

Company	Price	Change
Adnams	120.00	+0.50
Beck's	110.00	+0.25
Carlsberg	100.00	+0.10
Heineken	90.00	+0.15
Kaiser Brewery	80.00	+0.20
Miller	70.00	+0.10
Paulaner	60.00	+0.15
Pilsener	50.00	+0.10
Stout	40.00	+0.15
Tottenham	30.00	+0.10

## INVESTMENT TRUSTS

Company	Price	Change
Adnams	120.00	+0.50
Beck's	110.00	+0.25
Carlsberg	100.00	+0.10
Heineken	90.00	+0.15
Kaiser Brewery	80.00	+0.20
Miller	70.00	+0.10
Paulaner	60.00	+0.15
Pilsener	50.00	+0.10
Stout	40.00	+0.15
Tottenham	30.00	+0.10

## INVESTMENT TRUSTS

Company	Price	Change
Adnams	120.00	+0.50
Beck's	110.00	+0.25
Carlsberg	100.00	+0.10
Heineken	90.00	+0.15
Kaiser Brewery	80.00	+0.20
Miller	70.00	+0.10
Paulaner	60.00	+0.15
Pilsener	50.00	+0.10
Stout	40.00	+0.15
Tottenham	30.00	+0.10

## INVESTMENT TRUSTS

Company	Price	Change
Adnams	120.00	+0.50
Beck's	110.00	+0.25
Carlsberg	100.00	+0.10
Heineken	90.00	+0.15
Kaiser Brewery	80.00	+0.20
Miller	70.00	+0.10
Paulaner	60.00	+0.15
Pilsener	50.00	+0.10











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## WORLD STOCK MARKETS

**From outer space  
to the  
factory floor  
Rockwell  
leads the way**

 **Rockwell**

## INDICES

[illegible]

## IS INDICES

Net Income	Oct 31	Oct 27	Oct 27	1995	Low	Since completion	Low
	4755.48	4768.57	4741.73	4892.48	3852.58	4692.45	4172
	(1910)			(1910)		(1819)59	67.22
Net Assets	103.71	103.74	103.80	104.84	93.83	100.77	9.88
	(1910)			(1910)		(1910)	5.85
Export	1593.12	1592.55	1594.34	1593.12	1472.19	2003.39	12.32
	(1910)			(1910)		(1910)	10.38
Volatility	214.4	216.2	215.9	214.8	183.0	208.46	16.08
	(1910)			(1910)		(1910)	6.923
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**IN MEDICAL 225**

Dec	17580.0	17480.0				
Mar	17890.0	17480.0	-220.0	17880.0	17490.0	2,022
						7,173

Open Interest figures for previous day.

Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation.  
and lows are the averages of the highest and lowest prices reached during the day by all  
series supplied by Telekurs (Telekurs represents the highest and lowest values that the index has reached  
previous day's). † Subject to official recalculation.

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Nippon Corp.	8.5m	1,500	+40	Nippon Steel
Mitsubishi Hyr.	6.9m	794	+6	Toyo Sugar F.
Tokai Shuzo	6.6m	875	-21	Taito
Toho Zinc	6.0m	558	-9	Bunka Shutsu
NHK Spring	4.5m	530	+10	NED Corp.

**Stocks  
Traded**

4.3m	337	-
3.9m	408	+1
3.9m	588	+8
3.3m	885	-2
3.2m	1360	+1



4 pm close November 1

## NEW YORK STOCK EXCHANGE COMPOSITE PRICES

NEW YORK STOCK EXCHANGE COMPOSITE PRICES									
Index	Value	Change	High	Low	Open	Close	Volume	Value	Change
Dow Jones Industrial	5,812.12	+1.12	5,812.12	5,812.12	5,812.12	5,812.12	1,234,567	5,812.12	+1.12
S&P 500	1,023.45	+0.05	1,023.45	1,023.45	1,023.45	1,023.45	876,543	1,023.45	+0.05
NASDAQ Composite	2,345.67	+0.10	2,345.67	2,345.67	2,345.67	2,345.67	543,210	2,345.67	+0.10
NYSE Composite	1,567.89	+0.02	1,567.89	1,567.89	1,567.89	1,567.89	321,098	1,567.89	+0.02
NYSE-100	1,234.56	+0.01	1,234.56	1,234.56	1,234.56	1,234.56	210,987	1,234.56	+0.01
NYSE-200	987.65	+0.01	987.65	987.65	987.65	987.65	109,876	987.65	+0.01
NYSE-300	765.43	+0.01	765.43	765.43	765.43	765.43	98,765	765.43	+0.01
NYSE-400	543.21	+0.01	543.21	543.21	543.21	543.21	87,654	543.21	+0.01
NYSE-500	321.09	+0.01	321.09	321.09	321.09	321.09	76,543	321.09	+0.01
NYSE-600	109.87	+0.01	109.87	109.87	109.87	109.87	65,432	109.87	+0.01
NYSE-700	87.65	+0.01	87.65	87.65	87.65	87.65	54,321	87.65	+0.01
NYSE-800	65.43	+0.01	65.43	65.43	65.43	65.43	43,210	65.43	+0.01
NYSE-900	43.21	+0.01	43.21	43.21	43.21	43.21	32,109	43.21	+0.01
NYSE-1000	32.10	+0.01	32.10	32.10	32.10	32.10	21,098	32.10	+0.01
NYSE-1100	21.09	+0.01	21.09	21.09	21.09	21.09	10,987	21.09	+0.01
NYSE-1200	10.98	+0.01	10.98	10.98	10.98	10.98	9,876	10.98	+0.01
NYSE-1300	9.87	+0.01	9.87	9.87	9.87	9.87	8,765	9.87	+0.01
NYSE-1400	8.76	+0.01	8.76	8.76	8.76	8.76	7,654	8.76	+0.01
NYSE-1500	7.65	+0.01	7.65	7.65	7.65	7.65	6,543	7.65	+0.01
NYSE-1600	6.54	+0.01	6.54	6.54	6.54	6.54	5,432	6.54	+0.01
NYSE-1700	5.43	+0.01	5.43	5.43	5.43	5.43	4,321	5.43	+0.01
NYSE-1800	4.32	+0.01	4.32	4.32	4.32	4.32	3,210	4.32	+0.01
NYSE-1900	3.21	+0.01	3.21	3.21	3.21	3.21	2,109	3.21	+0.01
NYSE-2000	2.10	+0.01	2.10	2.10	2.10	2.10	1,098	2.10	+0.01
NYSE-2100	1.09	+0.01	1.09	1.09	1.09	1.09	987	1.09	+0.01
NYSE-2200	0.98	+0.01	0.98	0.98	0.98	0.98	876	0.98	+0.01
NYSE-2300	0.87	+0.01	0.87	0.87	0.87	0.87	765	0.87	+0.01
NYSE-2400	0.76	+0.01	0.76	0.76	0.76	0.76	654	0.76	+0.01
NYSE-2500	0.65	+0.01	0.65	0.65	0.65	0.65	543	0.65	+0.01
NYSE-2600	0.54	+0.01	0.54	0.54	0.54	0.54	432	0.54	+0.01
NYSE-2700	0.43	+0.01	0.43	0.43	0.43	0.43	321	0.43	+0.01
NYSE-2800	0.32	+0.01	0.32	0.32	0.32	0.32	210	0.32	+0.01
NYSE-2900	0.21	+0.01	0.21	0.21	0.21	0.21	109	0.21	+0.01
NYSE-3000	0.10	+0.01	0.10	0.10	0.10	0.10	98	0.10	+0.01
NYSE-3100	0.09	+0.01	0.09	0.09	0.09	0.09	87	0.09	+0.01
NYSE-3200	0.08	+0.01	0.08	0.08	0.08	0.08	76	0.08	+0.01
NYSE-3300	0.07	+0.01	0.07	0.07	0.07	0.07	65	0.07	+0.01
NYSE-3400	0.06	+0.01	0.06	0.06	0.06	0.06	54	0.06	+0.01
NYSE-3500	0.05	+0.01	0.05	0.05	0.05	0.05	43	0.05	+0.01
NYSE-3600	0.04	+0.01	0.04	0.04	0.04	0.04	32	0.04	+0.01
NYSE-3700	0.03	+0.01	0.03	0.03	0.03	0.03	21	0.03	+0.01
NYSE-3800	0.02	+0.01	0.02	0.02	0.02	0.02	10	0.02	+0.01
NYSE-3900	0.01	+0.01	0.01	0.01	0.01	0.01	9	0.01	+0.01
NYSE-4000	0.00	+0.01	0.00	0.00	0.00	0.00	8	0.00	+0.01
NYSE-4100	0.00	+0.01	0.00	0.00	0.00	0.00	7	0.00	+0.01
NYSE-4200	0.00	+0.01	0.00	0.00	0.00	0.00	6	0.00	+0.01
NYSE-4300	0.00	+0.01	0.00	0.00	0.00	0.00	5	0.00	+0.01
NYSE-4400	0.00	+0.01	0.00	0.00	0.00	0.00	4	0.00	+0.01
NYSE-4500	0.00	+0.01	0.00	0.00	0.00	0.00	3	0.00	+0.01
NYSE-4600	0.00	+0.01	0.00	0.00	0.00	0.00	2	0.00	+0.01
NYSE-4700	0.00	+0.01	0.00	0.00	0.00	0.00	1	0.00	+0.01
NYSE-4800	0.00	+0.01	0.00	0.00	0.00	0.00	0	0.00	+0.01
NYSE-4900	0.00	+0.01	0.00	0.00	0.00	0.00	0	0.00	+0.01
NYSE-5000	0.00	+0.01	0.00	0.00	0.00	0.00	0	0.00	+0.01

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Financial Times



## NYSE COMPOSITE PRICES

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## AMEX COMPOSITE PRICES

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AMERICA Dow flat as indicators suggest growth

Wall Street

Although bonds moved sharply higher, US shares were mostly flat at midday as new data indicated that economic growth was slowing, writes Lisa Branstetter in New York.

At 1 pm the Dow Jones Industrial Average was up 0.36 at 4,755.12. The more broadly based Standard & Poor's 500 added 0.84 at 580.34 and the technology-rich Nasdaq composite 1.65 at 1,037.71. Volume on the NYSE was 223m shares.

Both the September index of leading economic indicators and the National Association of Purchasing Management's index of manufacturing activity in October fell, although economists had been anticipating modest increases.

There was also disappointment from the Federal Reserve's Beige Book, which is prepared in advance of the November 15 meeting of the Fed's Open Market Committee, that said that the economy had

continued to grow in September and October, but at a slower pace than over the summer.

The weak economic news brought inflation wary bond investors into that market, and in the early afternoon bonds moved higher, with the benchmark 30-year Treasury up more than 1/8 of a point and the yield down to 6.288 per cent.

Cigna added 3/4% at \$103.94 after the company reported stronger than expected third-quarter earnings on Tuesday after the market had closed. The US insurance group's net income was \$238m, up from \$151m last year.

Shares in Kulick & Soffa, which makes semiconductor construction equipment, plunged 7/8% or 32 cent per share, after the company said that it would delay a proposed stock offering because of a problem affecting the manufacture of one of its products.

W.R. Grace initially added 1/4% after announcing late on Tuesday that it planned to cut

more than 800 jobs as part of a cost-cutting move. By early afternoon, however, the shares had fallen from their session high and were trading 5/8% ahead at \$56.41.

Boeing shares jumped 3/4% or 3.6 per cent to \$88 on news that Japan Airlines would buy five 777s from the Seattle-based manufacturer.

**Canada**

Toronto shrugged off early profit-taking to trade higher at midday. The TSX-300 composite index was 10.73 ahead by noon at 4,468.88, up from an early low of 4,444.89, in volume of 27.6m shares.

DMR Group surged 3/4% to C\$12.25 after Amdahl increased its bid to C\$12.50 from C\$12.25, topping IBM Canada's C\$11.25 share offer.

Active issues included BCE, which gave up C\$4 to C\$44.4. The stock traded strongly on Tuesday as a wave of buying sent shares in Quebec-based companies higher.

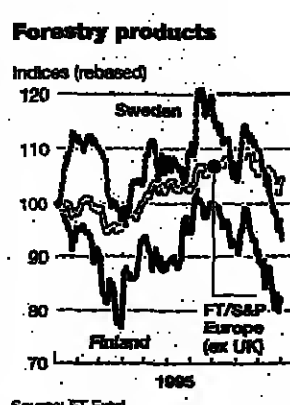
Nordic forestry at turning point

It has been a year of soaring prices and record earnings for Nordic forestry companies, but investors are now bailing out in droves, writes Christopher Brown-Hume in Stockholm.

The exodus has accelerated in recent weeks as evidence that the pulp and paper cycle is nearing its peak, together with greater uncertainty regarding next year's global economic outlook. The bearish mood has been exacerbated by the strength of the Finnish markka, and the surge in the Swedish krona.

The big surprise is how early negative sentiment took hold. Finnish forestry stocks peaked in January 1994, just as the price boom was beginning, and have since fallen by around 30 per cent. That puts them on a p/e ratio of around 8.4 for 1995, much lower than the 7.0 at the peak of the last cycle in 1989. The Swedish peak came later, in late 1993, but the fall has been no less dramatic.

One reason for underperformance has been fear that the industry will repeat the mistakes of the last cycle, when it was over-invested, rather than falling demand, that led to the sharp drop in prices between 1991 and 1993.



In fact, Mr Jukka Huuskonen of Arctic Securities in Helsinki says companies have ordered fewer new machines in the current upturn, increasing the likelihood of a soft landing when the cycle does turn downwards.

Nevertheless, the market could be at a turning point. The pace of price rises has clearly weakened after the steep increases earlier in the year. So investors remain nervous because it is not yet clear whether recent market weakness stems from inventory reductions, or a more fundamental weakening in underlying demand.

EUROPE Dollar lifts Frankfurt

A rising dollar lifted FRANKFURT, the Dax index closing 16.36 higher at an indicated 2,182.11, although turnover fell from DM6.4bn to DM3.9bn, reflecting the All Saints holiday.

A cut of just one basis point in the Bundesbank's repo rate did little for banks, which mostly underperformed.

However, it helped the dollar, and cyclical, Hoechst rose another DM3 to DM377, finally topping Bayer's DM375.50. BASF was DM5.15 higher at DM313. In steals, Thyssen, weak on short-term working news on Tuesday, slid further to DM49.30, but finally closed DM3.30 higher at DM256.50.

ZURICH was spurred by renewed strength in the bond market after reports that some Swiss bond deals were to be included in a new US index. The SMI index finished 20.3 ahead at 3,128.5.

US bearers initially sank SFR15 in response to the bank's nine-month statement before picking up to close SFR11 higher at SFR1.241. Mr Hans Kaufmann at Bank Julius Baer in Zurich said that investors, eventually, concentrated on indications that full-year earnings would be higher, and not lower as had been suggested at the six-month stage.

The upbeat mood spilled over to other financials; Swiss

FT-SE Actuaries Share Indices

Nov 1	Nov 2	Nov 3	Nov 4	Nov 5	Nov 6	Nov 7	Nov 8	Nov 9	Nov 10	Nov 11	Nov 12	Nov 13	Nov 14	Nov 15	Nov 16	Nov 17	Nov 18	Nov 19	Nov 20	Nov 21	Nov 22	Nov 23	Nov 24	Nov 25	Nov 26	Nov 27	Nov 28	Nov 29	Nov 30
Nov 1	Nov 2	Nov 3	Nov 4	Nov 5	Nov 6	Nov 7	Nov 8	Nov 9	Nov 10	Nov 11	Nov 12	Nov 13	Nov 14	Nov 15	Nov 16	Nov 17	Nov 18	Nov 19	Nov 20	Nov 21	Nov 22	Nov 23	Nov 24	Nov 25	Nov 26	Nov 27	Nov 28	Nov 29	Nov 30

Re remained on its upward path, picking up SFR6 to SFR1.250.

Ciba registered advanced another SFR22 to SFR1.005, taking the rise since Monday, when the group announced the spin-off of its Mettler Toledo weighing machines division, to 7.8 per cent.

Nestlé again benefited from the recent rash of brokers' recommendations, adding SFR11 at SFR1.201.

AMSTERDAM continued to like KLM after the airline's encouraging results on Tuesday, marking the shares up another F12.10 or 4 per cent to F154.20. The AEX index also had another satisfactory session, advancing 2.54 to 456.10, but turnover was below the daily average.

DSM had a technical rebound after disappointment with the chemical company's fourth-quarter forecast on Tuesday, and the stock moved F1.80 to F1.200.00. However,

some analysts reiterated sell recommendations yesterday, noting that 1996 earnings would be affected by price pressure.

HELSINKI was boosted by an interest rate reduction, although this was partly countered by a strike by bank officials. The HEX index moved forward 10.29 to 1,827.09 in low turnover of FM218m. Nokia went against the trend, retreating FMS to FMS23.

ISTANBUL fell sharply during afternoon trading, triggered by negative political factors. The composite index lost 1,500.38 or 3.2 per cent to 44,824.56 as turnover fell to TL7,500bn from the previous session's TL11,780bn.

Brokers said that a parliamentary vote of confidence, due on Sunday, had increased the general uncertainty.

Written and edited by William Cochrane, Michael Morgan and John Pitt

Peso weakness affects Mexico

Mexico City fell steadily during the morning session as the peso came under renewed speculative attack.

By midsession the IPC index was off 36.28 or 1.6 per cent at 2,265.73. Traders said that the currency was suffering as investors bought the US dollar on worries over the country's inflationary outlook.

SAO PAULO had lost early gains by midday in thin turnover. The Bovespa index was down R\$6 at R\$28.9 by 1 pm.

Many analysts remained negative on the mar-

ket's short-term direction and were concerned at the impact the launch of a level two ADR on Wall Street by Telcel would have on the overall market. The telecommunications company was up 1 per cent at R\$39.40 by midsession.

BUENOS AIRES followed Mexico down and the Merval index was off 4.8 or 1.3 per cent at 402.02 by late morning. Traders said volume was well below the recent daily average.

Bear Stearns cut its weighting on Argentine shares to 9 per cent from 11.5 per cent due to "short-term political and economic problems".

ASIA PACIFIC

Nikkei lower, Taipei in fifth consecutive fall

Tokyo

Lack of demand from foreign investors, after some late October window-dressing on Tuesday, left equities vulnerable to arbitrage unwinding. The Nikkei 225 average closed modestly lower in spite of the dollar's rise to the ¥102 level, writes Emiko Terazono in Tokyo.

The key index was off 180.15 at 17,474.49 after fluctuating between 17,408.93 and 17,622.66. By buying for foreign brokers in the afternoon provided some support.

The Topix index of all first section stocks slipped 5.19 to 1,405.56 and the Nikkei 225 lost 1.07 at 363.49. Volume came to 321m shares, against 290m. Declines led rises by 606 to 394, with 182 issues unchanged. In London the ISE/Nikkei 50 index edged up 0.04 to 1,389.50.

Investors worried about large outstanding long arbitrage positions, currently totaling 2.1bn shares. Futures linked selling of cash stocks in the morning session averaged some 66,000 shares for each Nikkei 225 component.

The dollar's rise, meanwhile, supported high-technology issues, especially those related to semiconductor manufacturing equipment. Nikon, the most active issue of the day, climbed ¥40 to ¥1,500 on analysts' forecasts of record earnings for the next fiscal year.

Mitsumi Electric rose ¥50 to ¥2,520, backed by the company's leading share in the high-speed CD-ROM drive market. Sony, which had fallen for four straight trading days, regained ¥80 to ¥4,680, while TDK put on ¥180 at ¥5,430.

Nippon Telegraph and Telephone fell ¥16,000 to ¥923,000 on selling by individual and overseas investors. The stock was down for the fifth consecutive day as investors were discouraged by reports that the company will cut connection rates of its lines for long distance call operators.

The gas sector posted the largest decline of the day, shedding 3.6 per cent on

exchange rate worries. Tokyo Gas receded ¥14 to ¥346 and Osaka Gas ¥9 to ¥334.

In Osaka, the OSE average dipped 13.66 to 19,123.91 in volume of 17.7m shares.

**Roundup**

Hong Kong and Manila were closed for holidays.

TAIPEI fell for the fifth consecutive session as turnover sank to a two-year low. The weighted index lost 15.38 at 4,801.66 in ¥15.1bn turnover.

The construction sector led the falls, with Long Bon Construction down T\$1.10 at T\$18.70. However, electronics shares advanced, Mosel gaining T\$3.00 at T\$98.50.

SYDNEY retreated on a com-

ination of negative news, including weaker base metal prices. The All Ordinaries index shed 15.0 to 2,055.7 in turnover of A\$446.5m. The gold index fell 16.8 to 1,705.8.

Brokers said the drop in the resources sector followed BHP getting ex a 25 cents a share dividend and closing 52 cents down at A\$17.26.

News Corp. firmed 4 cents to A\$6.66 in 5.8m-share volume after announcing a joint venture sports programming deal with Telecommunications.

KUALA LUMPUR was weak, with foreign funds unwinded by Moody's suspension of Genting, the gaming stock, after the discovery of forged scrips on the issue. The composite index fell 15.83 or 1.7 per

cent to 941.78, with a 20 basis-point rise in base lending rate by Malayan Banking, the country's leading bank, adding to the weak mood.

Investor soared M\$3.28 to M\$5.15 on resumption of trading after a two-month suspension to undertake a capital restructuring.

SEOUL received a late boost from an afternoon buying spree as worries about the effects of a slush fund scandal abated. The composite stock index closed 7.26 up at 997.52.

Insurance stocks were the biggest gainers on belief that the sector would see big earnings rises in the year to September. The sub-index surged 4.7 per cent, many of the companies rising the day's limit.

SINGAPORE continued to drift lower in light volumes, led by pressure in the over-the-counter market on renewed concerns over false share certificates. The Straits Times Industrial index relinquished 6.84 at 2,100.54. United Pulp & Paper picked up 22 cents to S\$1.21 on takeover rumours.

KARACHI, still worried by violence in the city, fell marginally in thin trading. The KSE-100 index eased 4.20 to 1,583.41.

BOMBAY drew strength from a rally in Reliance Industries after the company sought an inquiry into speculative selling in its shares. The BSE-30 jumped 60.18 to 3,483.65 as Reliance rose Rs15 to Rs253.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	October 27 1995	October 27 1995	% Change over week	% Change over week	Local currency terms	October 27 1995	October 27 1995	% Change over week	% Change over week
Latin America	(252)	446.10	-7.7	-23.1						
Argentina	(30)	638.88	-5.2	-13.0		391,979.16	-5.2	-13.0		
Brazil	(72)	309.37	-8.3	-16.8		1,109.23	-8.3	-16.8		
Chile	(36)	743.09	-1.2	-1.6		1,246.59	-1.2	-1.6		
Colombia	(18)	585.68	-2.4	-2.7		1,032.44	-2.4	-2.7		
Mexico	(67)	403.52	-9.0	-30.6		1,234.39	-9.0	-30.6		
Peru	(19)	178.17	-9.6	-0.1		247.12	-9.6	-0.1		
Venezuela	(12)	530.13	-2.5	+7.1		2,069.12	-2.5	+7.1		
Asia	(187)	233.03	-0.6	-6.8						
China	(20)	63.10	-4.3	-16.8		66.28	-4.3	-16.8		
South Korea	(59)	144.88	+1.1	+5.6		145.02	+1.1	+5.6		
Philippines	(25)	242.16	-4.3	-16.4		312.80	-4.3	-16.4		
Taiwan	(63)	109.16	-0.2	-3.6		110.49	-0.2	-3.6		
India	(101)	87.87	-1.5	-28.8		110.64	-1.5	-28.8		
Indonesia	(42)	110.05	-2.1	+10.3		136.10	-2.1	+10.3		
Malaysia	(114)	264.91	+0.1	-1.5		247.59	+0.1	-1.5		
Pakistan	(36)	271.77	+1.4	-2.3		247.59	+1.4	-2.3		
Sri Lanka	(19)	108.63	-1.6	-3.6		123.54	-1.6	-3.6		
Thailand	(88)	376.13	-1.2	-1.9		375.29	-1.2	-1.9		
Euro/Mid East	(209)	138.28	-1.4	+18.7						
Greece	(40)	253.31	-0.8	+12.3		396.28	-0.8	+12.3		
Hungary	(5)	119.55	-1.3	-21.2		188.22	-1.3	-21.2		
Jordan	(8)	183.58	-1.4	+22.4		274.07	-1.4	+22.4		
Poland	(16)	441.46	-0.1	-0.1		678.80	-0.1	-0.1		
Portugal	(27)	118.74	-1.3	-1.9		120.69	-1.3	-1.9		
South Africa	(64)	240.50	-1.3	+7.0		180.53	-1.3	+7.0		
Turkey	(44)	145.29	-2.9	+19.3		3,472.40	-2.9	+19.3		
Zimbabwe	(5)	264.34	+0.7	-8.0		358.72	+0.7	-8.0		
Composite	(1138)	269.81	-2.8	-12.2						

Kleinman International, the Washington-based independent analyst of emerging markets, reports that third-quarter performance in this asset class was very mixed, with some of the smaller markets showing the best returns, writes John Pitt.

The Cote D'Ivoire, for instance, which had a market capitalisation of just \$430m at the end of 1994, and some 30 listed companies, showed a rise of more than 100 per cent in local currency terms over this period. Ms Elizabeth Morrissey, managing partner, says this was due to a combination of strong economic growth, a lower inflation rate, continued progress in the privatisation programme and the "passage of new laws to attract foreign investment".

"Overall," she adds, "performance nine months after the Mexican financial crisis remains mixed. The Middle East and North Africa markets, turning in the strongest US dollar performance for the year to date. However, foreign investors are clearly differentiating between markets, with top-down macroeconomic performance and political stability again the main factors in selection."

● Mexico's equity market has seen volatile trading recently, with losses towards the end of last week being recouped on Friday and Monday, only for selling pressure to resume once more a day later. The main reason for a return of uncertainty has been speculative pressure on the peso. Analysts are now waiting to see what influence the agreement between the government and unions signed last weekend (the pacto) will have on controlling inflationary pressures.

But the general feeling among the international investment community now appears to be that market volatility will continue until the year-end, particularly ahead of the budget, which is expected to be released by the middle of the month. One commentator said the pacto had bought the government some breathing space, but that after a few weeks, scepticism about its durability was likely to resurface. Furthermore, President Ernesto Zedillo was facing fresh political problems.

FT&P ACTUARIES WORLD INDICES

The FT&P Actuaries World Indices are owned by The Financial Times Ltd., Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by The Financial Times and Goldman Sachs in conjunction with the Institute of Actuaries and the Faculty of Actuaries. All figures are in US dollars unless otherwise stated.

Table with multiple columns: Market, US Dollar Index, Day's Change, Pound Sterling, Yen, DM, Local Currency, % Change, Gross Div. Yield, US Dollar Index, Day's Change, Pound Sterling, Yen, DM, Local Currency, % Change, Gross Div. Yield, US Dollar Index, Day's Change, Pound Sterling, Yen, DM, Local Currency, % Change, Gross Div. Yield.

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